MOSAIC

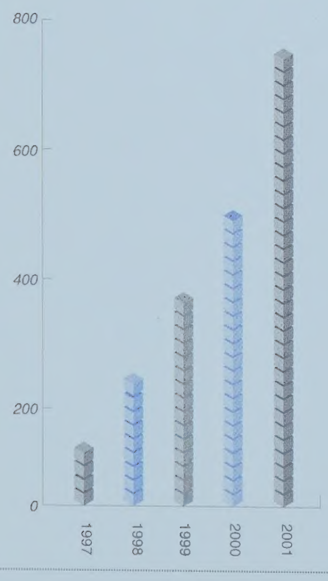
REAL SOLUTIONS. REAL RESULTS.

2001 Annual Report

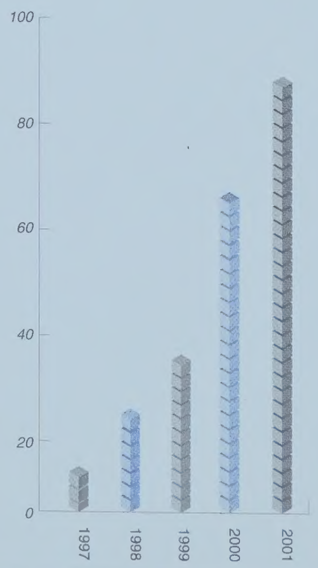
Financial Highlights

Years ended December 31	2001	2000	1999	1998	1997
Operations (thousands in CDN$)					
Revenues	$ 761,654	$ 493,662	$ 378,006	$ 252,574	$ 122,703
Gross profit	216,189	174,902	125,613	83,598	37,645
EBITDA(1)	84,628	67,297	37,121	24,881	12,133
Earnings from continuing operations before goodwill charges	39,335	37,647	20,082	12,992	5,994
Earnings from continuing operations	29,030	30,909	15,513	9,534	4,832
Per Share amounts					
Diluted earnings from continuing operations before goodwill charges					
GAAP	$ 0.48	$ 0.50	$ 0.29	$ 0.24	$ 0.17
Pro Forma(2)	0.32	n/a	n/a	n/a	n/a
Diluted earnings from continuing operations					
GAAP	$ 0.34	$ 0.41	$ 0.23	$ 0.18	$ 0.14
Pro Forma(2)	0.20	n/a	n/a	n/a	n/a

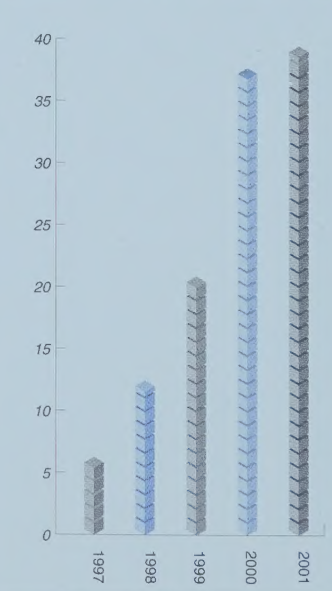
Revenues
(in millions of dollars)



EBITDA
(in millions of dollars)



Earnings before goodwill charges
(in millions of dollars)



The above financial information reflects the results from the continuing operations of Mosaic Group Inc. and excludes the results of all the Company's Continental European Operations.

(1) Earnings from continuing operations before interest, minority interest, income taxes, depreciation and amortization.

(2) Pro Forma diluted earnings per share reflects the impact of the Paradigm Earnout if it had occurred on January 1, 2001. Refer to note 9 of the December 31, 2001 consolidated financial statements for assumptions underlying the determination of Pro Forma earnings per share calculations.

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Letter to Shareholders

The theme of this annual report – and the theme at Mosaic – is leadership. As any student of history can tell you, talented leadership can make all the difference in the world. Success or failure. Winning or losing. Profits or losses. It is leadership first, and then of course execution, that makes the difference.

At Mosaic, we are demonstrating leadership, and we intend to make a difference. We will make a difference for you, our shareholders. We will make a difference for our Associates. And we will make a difference for our Brand Partners (our clients).

From my perspective, leadership means the ability to seize on four essential elements – opportunities, conviction, a plan and courage. I'd like to address each of these in turn.

Opportunities

Everywhere we look, opportunities abound. We will be disciplined in our focus, concentrating on the ones that can produce the best long-term returns. Some of the many forces working in Mosaic's favour are immediately obvious. Yet beyond those, we have 20/20 vision for opportunities that can only be seen through industry-coloured glasses – glasses we have worn for nearly 20 years.

To us, it is obvious that the major brands are shifting their spending out of feel-good, hard-to-measure advertising, to our core competency – measured marketing. Herein lies opportunity number one – to become the leading company in the world that delivers measured marketing solutions to large, global brands. Mosaic's whole operating methodology is about accountability, and accountability is exactly what large, global brands are demanding more for the dollars they spend and invest in marketing and distribution partners.

We are already the largest independent marketing solutions company in the world. To date that has essentially been a well-kept secret – but only for now. It won't be a secret for long. We have the vision, the plan, the management team and the talented Associates to turn Mosaic into the dominant and best known player – the leader – in this fast growing, emerging sector of measured marketing.

This is only one of many opportunities representing billions of dollars of potential revenue that Mosaic can tap into.

Another opportunity is the potential for taking the Mosaic platform in innovative directions, and creating new and sustainable revenue and earnings streams. Expect to see Mosaic lead in establishing creative new contracts and businesses with current and future Brand Partners. Expect to see Mosaic holistically integrate the entire transaction process by sourcing our own proprietary services, and selling those services to our own databases as well as to the databases of others. From product design, lead generation and customer acquisition, through to sales, fulfillment and billing, Mosaic will own its own end-to-end product solutions with higher margins, while minimizing risks by working with venture partners.

Expect to see Mosaic further establish itself as the leader in the burgeoning world of digital, data and direct marketing. And expect to see Mosaic emerge as the leader in driving large numbers of profitable consumer transactions – for our Brand Partners, for our joint venture partners, and for ourselves.

As I said, opportunities abound, and we have the leadership to seize them.

Conviction

Leadership also means having conviction in a vision – conviction that does not waiver through great times or through challenging times. During great times, leaders show their conviction through humility. During tough times, leaders show their conviction by staying the course, executing day-to-day, believing in the vision and bringing others onside to believe in the vision as well.

We have conviction that we are building a company that will stand the test of time as a great investment, a great place to work, and a business that delivers great results. Not everyone will be able to immediately understand every move we make, every deal we sign, or every company we buy. That said, we will not compromise the future for quick and easy decisions that do not fit into our long-term plan – even if those decisions are not immediately obvious to observers. We will do the right thing to meet the long-term interests of you, our shareholders, and our other constituents as well.

Sometimes maintaining conviction is not easy, because investors want results now. My job as the new CEO is to chart a course that ensures a great investment over time. I see a future where Mosaic is a transaction-driven company – and where we produce these transactions morning, noon and night, ensuring consistent growth of your investment.

We have the skill set, the technology and the know-how to accomplish this goal. Now it's a matter of making it happen. Our conviction is strong and our vision is clear.

A Plan

Leaders inspire because of the belief in his or her own vision and because people believe in the leader's plan to turn that vision into reality. We have a plan at Mosaic. We have shared it with our people. We have shared it with you. It is far reaching yet achievable.

Simply put, our plan is to become the world's most profitable transaction-driven organization…an organization that sells products and services on behalf of brands, in joint ventures with brands, on behalf of ourselves, and in other formats that will emerge over time…an organization that sells products and services using technology to drive efficiency, through traditional and non traditional channels to market. We will do so in ways people have seen before, and in new ways we are inventing every day at Mosaic.

Our plan also includes:

- treating our people with the utmost respect, rewarding them for effort, and greatly rewarding them for results;
- buying companies and capabilities that further our long-term cause, particularly in the areas of data, digital and direct;
- being transparent about our financial performance with the investment community;
- earning your trust every day through our consistency, our honesty and our results; and,
- becoming a long-term and dominant player on the world stage in selling products and services, and in creating transactions.

In addition, our plan includes change. As we grow your company over time, we will change our plan to reflect what we need to do in the short-term to build for the long-term.

Courage

Leaders must be willing to stand strong in the face of constant skepticism and second-guessing and be willing to make the hard calls. With opinions coming their way every day, from every angle, leaders need to have the courage to say, "this is where we are going, and this is how we are getting there". They do not change course because it is convenient or relieves the pressure of how the markets will react.

I would like to think the new Mosaic has already demonstrated courage. Inside our first quarter of running your company, we have:

- assessed the business from top to bottom, and then planned and initiated a company-wide restructuring, which should save the company approximately $10 million on an annualized basis;
- initiated a debt restructuring and reduction plan by raising gross proceeds of $52.44 million in new equity;
- reorganized the company into four manageable, understandable business divisions, and in an effort to help you understand them even further, we have included overviews of each in this annual report;
- initiated a system-wide new business development organization that will begin to pay dividends in the second half of 2002 and into the future; and,
- appointed a world-class, and in my opinion, the industry's best management team to run our business divisions.

Initiating each of these moves took courage. It always takes courage to be bold, and it takes courage to change. This annual report in its simplified look and production is an example of a bold step. Although we are a marketing services company with strong creative capabilities, we chose to go with a low cost alternative for our annual report to show our commitment to cost side management. By the time you read this annual report, we will have done much more. You can count on our courage to continue.

Leaders also inspire, and I hope these words have inspired you. I can tell you that our company is a team – highly motivated, inspired, and proud to go the extra mile to make our vision happen.

This is the new Mosaic. You can even see the change. Just look at our new logo on the cover of this report. Bold. Strong. Focused on solutions and results. The logo represents a new Mosaic. If you look closely, you can see that the individual pieces of the Mosaic are much more progressive in their design. This logo represents a transformation of one Mosaic to another; the Mosaic of today. We will prove beyond a shadow of a doubt that we are leaders, as people and as a company. As such, we are worthy of your investment and support.

Thank you for your continued interest in and support of Mosaic.

Marc Byron

Marc Byron
Vice Chairman and
Chief Executive Officer
Mosaic Group Inc.

Mosaic Performance Solutions

Flawless execution at every point in the customer acquisition process.

Mosaic is one of the largest acquirers of wireless, satellite and deregulated energy subscribers in the US. We are also one of the largest acquirers of credit card subscribers, as well as the fifth largest and fastest growing long distance reseller in Canada. These are impressive accomplishments, and all of them can be attributed to one division within Mosaic – Performance Solutions.

Mosaic Performance Solutions has changed the competitive landscape by offering our brands end-to-end solutions in driving the ultimate transaction for them, that being a new customer. While other traditional firms focus on providing different parts of the customer acquisition solution, only Mosaic offers the scale, scope, and sophisticated technology to flawlessly execute every component of the customer acquisition process. That includes:

- developing the strategy;
- optimizing the media mix;
- acquiring the necessary data (frequently by providing our own);
- identifying the customers;
- creating the offer;
- closing the sales;
- delivering the service or product; and,
- provisioning the customer to the Brand.

Only Mosaic has a full range of capabilities to deliver the turnkey transaction of a new customer that gives our Brand Partners a real and measurable return on their marketing investment. We are the only company in the world that can leverage our own proprietary technology and our own data to drive cost-managed and measured results for our Brand Partners' businesses and sales.

Many of the world's largest brands, particularly in service industries such as telecommunications, finance, and energy, attach a value to their existing customers. We operate by ensuring that brands compensate Mosaic only for each new customer provided to them – what we call pay for performance or commission-based distribution compensation.

With the most sophisticated data, digital and direct marketing platform fully proven and built out, Mosaic Performance Solutions will drive more and more transactions in more and more creative ways.

Mosaic Sales Solutions
Leveraging talent, technology and logistics

With more than 20,000 field representatives selling products or services on a dedicated basis at retail for our Brand Partners, Mosaic has become the leading Sales Solutions company in the world, driving transactions through millions of face-to-face, one-on-one contacts.

Some of the world's largest brands – companies such as Guinness United Distillers and Vintners and AT&T Wireless – hire Mosaic's outsourced sales force because we have the ability to manage large-scale people deployment better than anyone else and because we know how to make the transaction happen. We know how to close sales. Mosaic can leverage its talent, technology and excellence in execution to create solutions that are better, faster and less costly than what the brand can deliver on its own.

The market for driving transactions in one-on-one settings – especially at big box and specialty retailers – is growing dramatically as brands continue to focus on their core competencies, turning over specialized functions to experts like us. Mosaic produces proven results for this market by driving sales at the point of purchase. We use a unique combination of leading edge processes and technologies to create an entirely digital work environment, and we use "best in class" people to operate those processes and technologies effectively. We move market share.

Each year, our field representatives visit more than 3.5 million destinations around the world and interact with tens of millions of potential consumers. We connect directly with consumers in the retail environment; provide product demonstrations that bring the brand to life, and train key product influencers, such as retail sales personnel or bartenders.

Through our joint venture with Information Resources Inc. (IRI), Mosaic InfoForce's field representatives visit more than 20,000 retail stores per week, collecting approximately 40 million unique data elements every month. We send this data using Mosaic's proprietary technology platform to IRI for analysis and sale to their clients. With this level of one-to-one contact and data collection, Mosaic can gather more market intelligence than any other company in the world – and consistently provide solutions that change to meet the needs of the brand and the retail environment.

Microsoft, one of the most recognized brands in the world, realized four years ago that partnering with Mosaic on its retail sales and merchandising functions would save costs and produce better results. Mosaic successfully deploys and develops the field team necessary to build Microsoft displays, install point of purchase materials, and dispense product information to retail sales personnel and consumers. We are currently serving as Microsoft's in-store representatives at 3,600 stores across North America, launching many new products and augmenting the sales of existing titles.

As part of the North American Windows XP Pre-Launch, Mosaic recently installed "PC Ready" point of purchase materials nationwide to promote PC compatibility with Windows XP. Microsoft relied on the strong technical skills of the Mosaic field representatives to launch in the retail environment, with Windows XP Live! retail

personnel training events and hundreds of in-store demonstrations. In fact, Mosaic's field representatives developed such an outstanding relationship with the retail locations that the campaign resulted in 90% of the stores placing the product without even receiving prior approval from the locations.

Our field representatives use hand-held PCs to relay information on point of purchase and display completion, product sales, floor presence, competitive information and causal feedback back to Microsoft daily through an innovative digital platform we have built for Microsoft, called Quantum Intelligence. The diverse teams within Microsoft rely upon this information on a real-time basis for crucial business decisions.

Mosaic consistently delivers targeted one-on-one solutions to our clients – solutions that pay off in "best in class" results for our brands because simply, we are judged by the ultimate form of measurement, the transaction. We excel at getting our brands' products and services in front of consumers, making a lasting impression, and then closing the sale.

Mosaic Marketing and Technology Solutions

Implementing integrated solutions that drive market share

Mosaic's Marketing and Technology Solutions division has become a leader in integrated marketing and technology solutions for Brand Partners. We understand the strategies and tactics that drive consumers' behavior, and have the ability to assist Brand Partners develop and implement marketing and technology executions that drive "value" for both the Brand Partner and their consumers. Our work spans all channels, incorporates innovative promotional activity and we understand how to apply technology to enable solid execution and create real efficiencies.

In today's marketplace, Brand Partners and consumers are challenging the traditional rules of direct marketing. It's no longer enough to just develop better and more targeted offers to consumers. The company to emerge as the true leader will be the one which creates value for the Brand Partners and their consumers. This cuts across business-to-business and business-to-consumer. At Mosaic we create that value by delivering results that can be measured, and by delivering results that visibly improve the brand's bottom line. Our solutions create value through interacting with consumers across all channels of delivery and by bringing our brands to life.

When the National Football League (NFL) wanted to increase its presence on campuses across Canada, Mosaic developed a solution that brought the NFL experience to life. Mosaic's Marketing and Technology Solutions group, in concert with the NFL, and sponsored by Budweiser, created a university touch football league at 10 Canadian universities. The program was established in recognition of a core NFL value - the need to establish a balance between athletic and academic achievement.

A random draw selected four teams out of the 10 university league champions to advance to the National Championship at the SkyDome in Toronto. The four teams played over 2 days with the winning team taking a $10,000 NFL/Budweiser scholarship back to their university.

Off the field, Mosaic brought the NFL experience to life with on-campus designated licensee headquarters at each of the 10 universities hosting kickoff events, post game socials and NFL Monday Night Football parties. To create another level of interaction with the targeted consumers, Mosaic's technology group developed 34 pages on the Budweiser.ca web site to host league details, schedules, photos and contests.

The focus for any solution offering is always the brand's business or customer challenge. We can then draw from a range of Mosaic capabilities and experiences to develop the appropriate solution. Those solutions come in the form of a stand alone marketing and technology program which draws on its key capabilities – strategy and innovation, integrated marketing, database marketing services, technology delivery, creative, and people solutions – or through an integrated approach utilizing the capabilities of the full Mosaic group. The Marketing and Technology Solutions division is strategically aligned with each of the Mosaic divisions to provide added enhancements and effectiveness to Brand Partner solutions.

The Marketing and Technology Solutions division's focus is be on building innovative, practical solutions that perform well in the marketplace – solutions that produce real results in real time.

Mosaic Solutions UK

Leading in innovative, cost-managed, end-to-end solutions

Mosaic Solutions UK is a unique extension of Mosaic's full range of capabilities, and has emerged as a leader in innovative, cost-managed, end-to-end solutions.

Mosaic's ability to develop and execute a complete sales solution is being successfully showcased in our joint venture between J Sainsbury plc, one of the largest grocery retailers in the UK, and BT Cellnet. As the managing partner of this joint venture, we successfully leverage customer contacts, the Sainsbury brand name, BT Cellnet's wireless network, and Mosaic's proprietary technology platform and data to build the fastest growing private label wireless platform in the UK today.

Sainsbury wanted to extend its brand by offering a new customer business – Sainsbury's Mobile – to its 15 million walk-through customers each week and to the population at large. Working with BT Cellnet, Mosaic designed a wireless offering that enhances and adds value to the Sainsbury customer experience. On every monthly bill, subscribers receive a rating and comparison of their rates with those of approximately 40 competing plans in the UK. We charge the subscribers the lowest of all the rates.

Mosaic is reaping the benefits of this innovative solution. We receive a monthly management fee to manage this joint venture, to acquire customers for Sainsbury's Mobile, and we receive a share of the monthly profits generated by the joint venture. In addition, each customer added increases the long-term value of the ongoing business. Mosaic receives royalties, dividends or bonuses for delivering to Sainsbury what currently amounts to approximately 3,000 newly activated post-paid wireless customers per week, and growing.

The Sainsbury's Mobile success, as well as the success of our other brands such as Coca Cola Great Britain and Microsoft, attest to Mosaic's success as innovators, strategists and program integrators. Mosaic Solutions UK provides brands with the strategic thinking and execution needed to address their business challenges. Expect great things from our UK business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of our annual report provides Management's Discussion and Analysis of the financial condition and operating performance of Mosaic Group Inc. for the years ended December 31, 2001 and 2000. This review focuses on key measures used to monitor our overall financial performance and financial condition. The analysis should be read in conjunction with and is based on our audited consolidated financial statements. All amounts are in Canadian dollars, unless otherwise stated.

OVERVIEW

During fiscal 2001 and over the first three months of 2002, Mosaic continued to take the steps necessary to evolve its business into the world's largest independent marketing & sales solutions company. Following are some of the major steps taken:

(a) Appointment of Marc Byron as the Chief Executive Officer of the Company effective January 1, 2002 and making other senior management changes. The focus of the change is to combine experienced operations personnel with proven business development track records.

(b) The development and announcement in early 2002 of the Company's "Go Forward Plan" which focuses on building revenue and earnings growth through targeted sales and marketing efforts along with strong operations management.

(c) The reduction of selling general & administrative ("SG&A") costs in 2001 through headcount and overhead reductions at a cost of $4.2 million with annualized savings estimated at $10.5 million. The Company is planning a further approximate 10% headcount reduction in the first quarter of 2002.

(d) Signing of major contracts aggregating to over $150 million in fiscal 2001 including DIRECTV, Microsoft, Sainsbury's and BT Cellnet.

(e) Private placement of Canadian Originated Preferred Securities amounting to US$57 million in June 2001 to begin the process of strengthening the balance sheet.

(f) Finalizing the terms of the contingent consideration payable to Paradigm Direct (now renamed Mosaic Performance Solutions) to remove related uncertainties, and to allow its complete integration into Mosaic.

(g) Retooling Mosaic's customer direct marketing acquisition business (Mosaic Performance Solutions) after the fallout of the events of September 11th in the United States, to bring its direct marketing response rates to historic levels.

(h) Decision to migrate Mosaic's direct marketing customer acquisition work to WorldCom Wireless from AT&T Wireless beginning in fiscal 2002. Although the Company had a short term negative impact on profit in the fourth quarter of 2001, extending into the first quarter of 2002, management believes that the WorldCom relationship will ultimately be more profitable and carry lower risk for Mosaic.

(i) In March 2002, Mosaic completed a public offering of 13.8 million common shares for total gross proceeds of $52.4 million.

(j) Completion of the previously announced exit from Mosaic's unprofitable Continental Europe operations.

GO FORWARD PLAN

In January 2002 the Company unveiled its "Go Forward Plan" to its major stakeholders. This plan will be the cornerstone of the Mosaic's growth strategy. The main components of this plan follow:

(a) Reorganize Mosaic into four business divisions from 23 largely independent units with the objective to streamline the organization, encourage cross selling, reduce overheads and provide critical mass. The four business units include:

- Mosaic Performance Solutions (North America)
- Mosaic Sales Solutions (North America)
- Mosaic Marketing & Technology Solutions (North America)
- Mosaic UK Solutions (United Kingdom)

(b) Devote significant resources to business development including the establishment of a new business development unit directly reporting to the CEO.

(c) Realignment of employee compensation, performance measurement systems and career development to encourage exceptional financial performance including cross selling of integrated marketing solutions.

(d) Re-branding of all business units to Mosaic to enhance external awareness of Mosaic's solutions offerings.

(e) Completing an efficiency review of the entire organization with a view to improving EBITDA (earnings before interest, taxes, depreciation and amortization, minority interest and goodwill charges) margin performance metrics by no less than one full percentage point in 2002 compared to 2001. The areas of focus include:

- Performing a profitability review of all Mosaic's brand partner relationships with a view to re-negotiating or alternatively eliminating contracts which do not provide adequate profit contribution
- Identifying areas of excess resource capacity within the Company as well as opportunities to reduce costs and improve efficiencies by realignment and integration of operations. The Company expects to eliminate approximately 10% of its work force and consolidate a number of physical locations. The Company is currently estimating the costs related to this restructuring to be in the range of $10 to $14 million with savings estimated to be $10 million on an annualized basis or approximately $5 million in fiscal 2002.

(f) Restructure and reduce debt levels to provide for more balanced borrowing from alternate sources, to provide for a longer average maturity and to reduce the absolute level of debt outstanding. A stronger balance sheet will help the Company achieve its growth objectives more rapidly.

Mosaic Expands Wireless Customer Acquisition Capability With Worldcom Wireless

In the first quarter of 2002 Mosaic formed a new non-exclusive wireless customer acquisition relationship with WorldCom Wireless, Inc. Coincident therewith, Mosaic discontinued its direct marketing customer contract with AT&T Wireless which previously was carried out through an exclusive relationship. In 2001, Mosaic acquired approximately 750,000 wireless customers in the United States, representing approximately 6% of the US wireless market for Mosaic's carrier Brand Partners.

Commencing on January 28, 2002 Mosaic began marketing WorldCom Wireless consumer wireless services across the United States on a non-exclusive basis. WorldCom Wireless' service capabilities currently reach over 90% of the United States territory.

The transition to a non-exclusive arrangement with WorldCom Wireless was done to:

(i) provide flexibility in how Mosaic optimizes its wireless marketing expertise;

(ii) increase the potential size of the market by leveraging WorldCom Wireless's larger wireless services footprint in the United States; and

(iii) provide higher potential operating margins combined with a lower risk business model as provided by the terms of the agreement with WorldCom Wireless as:

- the Company is not responsible for owning phone inventory or for phone fulfillment; and
- has limited responsibility for customer churn in comparison with the AT&T Wireless contract arrangements.

Effective January 2002, the Company discontinued its direct marketing customer acquisition contract with AT&T Wireless as profitability levels on this contract fell below target levels. This work represented US$90.6 million in revenues during 2001 and incurred a loss in the fourth quarter.

As a result of the wind-down of the AT&T Wireless direct marketing contract, Mosaic's pre-tax earnings were lower by approximately $4.0 million in the fourth quarter of 2001. Further, in conjunction with the discontinuance of Mosaic's direct marketing activities with AT&T Wireless, the parties are in the process of negotiating the financial arrangements and other terms of such discontinuance. In the event that a satisfactory resolution is not achieved either party may elect to settle such matter through binding arbitration. In February 2002, the Company notified AT&T Wireless of the Company's intention to arbitrate should a mutually agreeable resolution not be reached. The Company does not anticipate any material negative impact on its financial position resulting from such negotiation or arbitration.

Looking forward, the Company expects that the WorldCom Wireless program will build during the first quarter of 2002 as the Company ramps up its services and then will provide relatively consistent revenues and margin thereafter as the program matures. Commencing in the second quarter, it is management's estimate that the WorldCom program will generate approximately US$10 to US$12 million less per quarter in revenues than the AT&T Wireless program generated in the prior year, however, the new program is expected to generate approximately the same level or better of profit margin per customer acquired.

Paradigm Direct Earnout

In the fourth quarter of 2001, the Company entered into an agreement with the vendors of Paradigm Direct LLC, now renamed Mosaic Performance Solutions, amending certain terms related to the contingent consideration ("earnout") payable as per the original merger agreement. Mosaic management entered into the early termination of the earnout on November 6, 2001, as it believed this early termination had significant benefits for Mosaic's shareholders as: (i) it provided finality and certainty with respect to the amount and timing of the Mosaic Performance Solutions Earnout to the former equity holders of Paradigm, including the maximum number of additional Mosaic common shares issuable; (ii) it eliminated the risk of possibly higher shareholder dilution that may otherwise have occurred under the terms of the original merger agreement; and (iii) it allows the Company to retain financial flexibility in terms of the ultimate level of debt incurred. Shareholders approved the terms of the amending agreement on January 7, 2002. The additional consideration payable has been included in goodwill.

The following table summarizes the amounts payable under the amended terms:

20,540,000 shares issued in January 2002	$ 57,512
Payable in cash or common shares at Mosaic's option, US$26,000,000 or a maximum of 12,480,000 shares	41,340
Total obligations included in share capital	98,852
Cash paid in January 2002	42,135
Additional transaction costs	2,012
Total additional consideration	$ 142,999

RESULTS OF OPERATIONS AND FINANCIAL CONDITION

SUMMARY FINANCIAL INFORMATION

(in thousands of dollars, except percentages)

	2001	2000	Change	Change (%)
Revenue	$ 761,654	$ 493,662	$ 267,992	54%
Gross Profit	$ 216,189	$ 174,902	$ 41,287	24%
% of Revenue	*28.4%*	*35.4%*	*(7.0%)*	
SG&A	$ 131,561	$ 107,605	$ 23,956	22%
% of Revenue	*17.3%*	*21.8%*	*(4.5%)*	
EBITDA	$ 84,628	$ 67,297	$ 17,331	26%
% of Revenue	*11.1%*	*13.6%*	*(2.5%)*	

Highlights of 2001 operating performance follow:

(a) Revenues increased by 54% to $761.7 million compared to $493.7 million in 2000. Pro forma revenue growth (which includes the fourth quarter 2000 acquisition of Mosaic Performance Solutions) grew by 12% in local currency terms with significant growth in the United States offset by a reduction in the United Kingdom.

(b) Earnings from continuing operations before interest, taxes, minority interest, depreciation, and amortization ("EBITDA") increased 26% to $84.6 million in 2001, from $67.3 million in 2000.

(c) Earnings from continuing operations before goodwill charges ("cash earnings") were $39.3 million in 2001 compared to $37.6 million in 2000.

(d) Earnings were, however, negatively impacted by the following factors which accumulated to approximately $0.06 to $0.07 per diluted share over fiscal 2001:

- As a result of the wind-down of the direct marketing customer acquisition contract with AT&T Wireless and the move to WorldCom Wireless, the pre-tax earnings in the fourth quarter of fiscal 2001 were lower by approximately $4.0 million or $0.04 per share.

- The financial impact of the terrible events of September 11th was to reduce third quarter revenues by approximately $15 million to $17 million with a corresponding reduction in operating earnings estimated at $2.3 to $2.5 million or $0.02 to $0.03 per share.

The following table summarizes the reported diluted and pro forma earnings per share ("EPS") from continuing operations.

	For the years ended	
	2001	2000
EPS	$0.34	$0.41
Cash EPS	$0.48	$0.50
Pro Forma EPS [1]	$0.20	n/a
Pro Forma cash EPS [1]	$0.32	n/a

[1] Pro Forma EPS reflects the impact of Mosaic Performance Solutions earnout as if it had occurred on January 1, 2001. This determination of per share earnings is based on the following assumptions:

(i) the transaction was effective on January 1, 2001;

(ii) 33,020,000 common shares were issued on that date including the first payment of 20,540,000 shares and a further US$26 million settled in shares (12.48 million);

(iii) the consideration of US$26.5 million was paid in cash, and financed through borrowings at an interest rate of 6% with a tax shield of 25% on the interest expense; and

(iv) the US dollar to Canadian dollar exchange rate during the period was 1.59 for purposes of determining the Canadian dollar interest cost on an after tax basis.

Revenues and Gross Profit

2001 Results:

The following table summarizes the comparative fourth quarter and full year revenues by major country within which the Company operates.

(in millions of dollars except percentages)

	Three months ended December 31			Fiscal Year		
	2001	2000	Change	2001	2000	Change
Canada	$ 26.3	$ 15.7	68%	$ 120.8	$ 116.7	4%
United States	99.6	86.9	15%	464.5	177.5	162%
United Kingdom	41.5	43.2	(4%)	176.4	199.5	(12%)
TOTAL	**$ 167.4**	**$ 145.8**	**15%**	**$ 761.7**	**$ 493.7**	**54%**

Revenues for fiscal 2001 were impacted by the following major factors:

(a) Full year inclusion in fiscal 2001 of revenues from Mosaic Performance Solutions, which was acquired in November 2000. This is reflected in year over year pro forma revenues growth of 33% in the U.S. compared to the growth in reported revenues of 162%. Pro forma consolidated Mosaic revenue growth, including the impact of Mosaic Performance Solutions, in fiscal 2001 was 13% (before currency impact) compared to the increase in reported revenues of 54%;

(b) The development of significant new contracts, especially in the US, with revenues of over $100 million in fiscal 2001. These contracts include those with DIRECTV, Microsoft, New Power, Guinness United Distillers and Vintners (GUDV), Brown & Williamson, Sainsbury's and BT Cellnet. Revenues from Mosaic's top 25 brand partners, excluding AT&T Wireless, grew by approximately 45% year over year mainly through new contracts implemented in fiscal 2001;

(c) Strengthening of the US dollar and the British pound in relation to the Canadian dollar resulting in a positive impact of 1% on reported revenues for fiscal 2001 in relation to the prior year;

(d) The fourth quarter of fiscal 2001 was impacted by reduced marketing under the AT&T Wireless direct marketing customer acquisition contract as the contract was proving unprofitable.

(e) Insufficient business development activities negatively impacted 2001 revenues, particularly in the United Kingdom, where management turnover was high at the beginning of the year. Mosaic's Go Forward Plan devotes significant resources to business development with a new business development unit setup reporting directly to the CEO;

(f) Direct fallout from the events of September 11th, reduced third quarter revenues by approximately $15 to $17 million; and

(g) Cutbacks in discretionary client spending especially in the Mosaic's relevance marketing business and certain of Mosaic's clients in the information technology sector. Over all about 15% to 20% of Mosaic's revenue base is exposed to the more discretionary marketing budgets of Mosaic's brand partners, which have a tendency to decline during periods of economic downturn. The remaining 80% to 85% of Mosaic's revenue base is derived from typically less discretionary sales and distribution budgets of the Company's brand partners.

Mosaic has a large customer base spread over a number of industry sectors. The top 25 customers accounted for approximately 75% of 2001 revenues. Over 70 customers each generated revenues in excess of $1 million during the year. AT&T Wireless represented approximately 27% of the total revenues in fiscal 2001. As discussed in the previous section, Mosaic has discontinued its direct marketing customer acquisition contract with AT&T Wireless as profitability levels on this contract fell below target levels. This work represented US$90.6 million in revenues during 2001 or about 18% of the total revenues but generated a significantly lower percentage of total fiscal 2001 earnings. The WorldCom Wireless contract will generate lower revenues compared to the AT&T Wireless contract but is expected to generate the same or higher absolute margins per customer acquired. However, as previously discussed, the risks for Mosaic, associated with the WorldCom Wireless business model will be significantly lower than that with the AT&T Wireless business.

By client industry sector, Mosaic's 2001 and 2000 revenues breakdown as follows:

Industry	2001	2000
Consumer goods	36%	49%
Telecommunications	32%	16%
Financial services	13%	17%
IT and convergent technology	7%	13%
Automotive and others	12%	5%
	100%	**100%**

The significant increase in the revenues from the telecommunications industry was mainly due to the revenues from AT&T Wireless during the year. Telecommunications revenues are expected to decline approximately US$10 to US$12 million per quarter in the United States in 2002 in relation to 2001 resulting from the switch from performing customer acquisition work for AT&T Wireless to WorldCom Wireless. In the United Kingdom, there is likely to be an increase in revenues in 2002 from the telecommunication industry as a result of the commencement of the customer acquisition relationship with BT Cellnet and the ongoing Mobile program with Sainsbury's. The other trend during fiscal 2001 has been a significant reduction in the number of IT and convergent technology clients as this sector cuts spending in a soft business environment for technology products.

Gross Profit increased to $216.2 million in fiscal 2001 from $174.9 million in fiscal 2000. Gross profit as a percentage of revenues was 28.4% in 2001, a decrease from 35.4% in 2000. This decline is partly due to the full year impact of the inclusion of Mosaic Performance Solutions whose pay for performance model typically operates at lower gross margin levels than Mosaic's traditional businesses. In addition, the Company experienced lower earnings in the fourth quarter arising from the decision to discontinue the AT&T Wireless direct marketing contract. Also adversely affecting profit margins was the increased budget pressure from certain clients in light of the weakening economic environment in 2001.

Outlook for 2002:

The Company began fiscal 2002 with a high level of revenue visibility. This visibility is 80% as measured by Mosaic's projected fiscal 2002 revenues, which are either contracted or highly probable (defined as contract which is expected to be renewed during 2002, where Mosaic has a distribution arrangement or where Mosaic is an agency on record and a budget has been identified by the brand partners).

The following table summarizes managements' revenue estimates for fiscal 2002:

Projected 2002 revenues (millions of dollars)

	2002 Estimates	2001 Actual
Mosaic Performance Solutions (North America)	$310 - 315	$324
Mosaic Sales Solutions (North America)	230 - 235	206
Mosaic Marketing & Technology Solutions (North America)	55 - 60	56
Mosaic UK Solutions (United Kingdom)	135 – 140	176
Mosaic Consolidated	**$730 - 750**	**$762**

Management estimates that fiscal 2002 revenues will be in the range of $730 to $750 million compared to $762 million in fiscal 2001. The reduction in estimated revenues for fiscal 2002 compared to 2001 is primarily due to:

(a) Mosaic's decision to discontinue the AT&T Wireless direct marketing customer acquisition contract and move to WorldCom Wireless. However, the new program is expected to generate approximately the same level or better of profit margin per customer acquired; and

(b) The planned discontinuance of several unprofitable contracts, particularly in the United Kingdom; partly offset by

(c) Significant growth opportunities in the sales solutions business in North America.

As part of the Go Forward Plan for 2002, Mosaic's management has committed significant resources to business development activity with the appointment of senior executives who will focus on developing new and existing client contracts with higher margins on a per contract basis. The 2002 plan has specifically allocated $3.7 million towards business development to be used for the funding of:

(a) dedicated senior business development people at units;

(b) lead generators and "rainmakers" across divisions;

(c) external lead generation fees;

(d) external communication and re-branding initiatives; and

(e) internal incentive related compensation.

The Company expects these business development initiatives to generate significant revenues towards the latter half of fiscal 2002 that will replace revenues lost from unprofitable contracts discontinued by Mosaic.

Looking forward the company expects its gross margin percentage to marginally improve in 2002 as a result of:

(a) The replacement of the AT&T Wireless direct marketing contract with the WorldCom Wireless customer acquisition program;

(b) Cost savings from previously completed actions including employee terminations and discontinuance of unprofitable brand partner contracts. This includes the discontinuance of two unprofitable direct selling contracts in the United Kingdom, which resulted in losses of $1.2 million during fiscal 2001; and

(c) The restructuring of the Sainsbury'sMobile Program in the U.K. which became profitable in the fourth quarter of 2001. To August 31, 2001, this program incurred operating losses aggregating approximately $1.5 million as initial customer acquisition levels were lower than planned;

Currently, the Company is undertaking a review of gross margins across its entire client base to eliminate contracts which do not meet target profitability levels. This action is being taken in conjunction with Mosaic's restructuring plans, which will be finalized in the first half of 2002.

Selling, General and Administrative ("SG&A") Expenses

2001 Results:

The components of SG&A expense, stated as a percentage of revenues, were as follows:

SG&A Expense as a % of Revenues	2001	2000
Salaries, benefits, and bonuses	10.9%	14.1%
Equipment leases	0.3%	0.7%
Occupancy	1.3%	1.6%
Other	4.8%	5.4%
Total SG&A	17.3%	21.8%

SG&A expenses in fiscal 2001 were $131.6 million, an increase of 22% over fiscal 2000. The increase was mainly due to the full year impact of the inclusion of Mosaic Performance Solutions, which was acquired in the fourth quarter of 2000. Although SG&A expenses have increased on a year over year basis, these expenses as a percentage of revenues decreased to 17.3% during fiscal 2001, from 21.8% in the prior year. The percentage decline is largely due to the positive impact of Mosaic Performance Solutions which typically has SG&A levels running at less than 11% of revenues partially offset by higher SG&A costs resulting from a build out of senior Mosaic management resources, excess head count at certain operating locations and severance costs.

With the significant revenue decline in the United Kingdom and softness in certain other businesses, management focused in 2001 on personnel reductions to reduce excess capacity, control of discretionary spending such as travel, combining back offices in the areas of finance, human resources, IT and payroll and maximizing supplier leverage and benefits enjoyed throughout the group. During the year, 178 employees were eliminated as a result of redundancies with a total cost of $4.2 million.

As announced in January of 2002, management is committed to further reductions in head count in selected operating divisions aggregating approximately 10% of total full time staff as well as closure of four to six business locations. The Company is currently estimating the costs related to this restructuring to be in the range of $10 to $14 million, with this charge to be recorded in the first quarter of 2002. Annualized savings from such initiatives are estimated at $10 million with an estimated $5 million saving in fiscal 2002.

Outlook for 2002:

Looking forward, management anticipates that SG&A in 2002 will approximate 16% to 17% of revenues.

Earnings From Continuing Operations Before Interest, Minority Interest, Taxes, Depreciation and Amortization ("EBITDA")

2001 Results:

EBITDA for 2001 was $84.6 million, up 26% from $67.3 million in 2000. EBITDA as a percentage of revenues was 11.1%, compared to 13.6% in 2000. The decline in EBITDA margin percent can be attributed to the following significant items:

(a) The fourth quarter reduction in earnings of approximately $4.0 million from the wind-down of the direct marketing customer acquisition contract with AT&T;

(b) The impact of September 11 on the Company's Performance Solutions business, which resulted in a negative earnings impact of $2.3 to $2.5 million during the third quarter of fiscal 2001;

(c) Losses on unprofitable contracts in the United Kingdom of $1.2 million. These contracts have subsequently been terminated; and

(d) The loss incurred to August 31, 2001 of $1.5 million during the start up phase of the Sainsbury's Mobile program.

Outlook for 2002:

Excluding the impact of any restructuring costs and related savings, management estimates fiscal 2002 EBITDA to be in the range of $89 million to $91 million, which would be approximately 11.5% to 12% of revenues compared to 11% in 2001. The improvement in the operating metrics would be largely as a result of a change in the revenue mix arising from the discontinuance of unprofitable brand partner contracts, the avoidance of one-time losses incurred in 2001 and the result of previously completed cost reduction measures.

Selected Financial Information
(in thousands of dollars, except percentages and per share amounts)

	2001 ($)	2000 ($)	Change ($)	Change (%)
EBITDA	84,628	67,297	17,331	26%
Depreciation and other amortization	17,858	9,422	8,436	90%
Interest	16,811	8,994	7,817	87%
Minority Interest	(629)	(393)	(236)	60%
Earnings from continuing operations before income taxes and goodwill charges	50,588	49,274	1,314	3%
Income taxes	11,253	11,627	(374)	(3%)
Effective tax rate	22%	24%	(2%)	
Earnings from continuing operations before goodwill charges (cash earnings)	39,335	37,647	1,688	4%
Goodwill charges net of income taxes	10,305	6,738	3,567	53%
Earnings from continuing operations	29,030	30,909	(1,879)	(6%)
Diluted cash earnings per share from continuing operations	$ 0.48	$ 0.50	(0.02)	(4%)
Diluted earnings per share from continuing operations	$ 0.34	$ 0.41	(0.07)	(17%)
Weighted average number of diluted shares outstanding	76,990	75,438	1,552	2%

Depreciation and Other Amortization

2001 Results:

Depreciation and other amortization expenses were $17.9 million in 2001 representing 2.3% of revenues, compared to $9.4 million or 1.9% of revenues in 2000. Two major factors resulting in this increase are:

(a) The full year impact of the inclusion of Mosaic Performance Solutions which was acquired in the fourth quarter of 2000; and

(b) Significant investment during the second half of 2001 in equipment used in Mosaic's U.S. data collection joint venture with Information Resources, Inc.

Outlook for 2002:

In 2002 depreciation and amortization expenses are expected to be in the range of $20 million to $22 million. The increase will be largely as a result of the full year impact of the depreciation of capital assets acquired during 2001 and planned 2002 capital expenditures in the range of $20 to $22 million.

Interest Costs

2001 Results:

Interest expense increased to $16.8 million in 2001 from $9.0 million in the prior year. This increase in interest costs was due to the higher utilization of debt facilities, primarily to finance the acquisition of Mosaic Performance Solutions in 2000. The interest cost in the second half of fiscal 2001 was significantly lower than that in the first half of the year as a result of:

(a) The private placement of equity instruments in June 2001 in the amount of US$ 57 million, the proceeds of which were applied towards a reduction in senior bank debt as discussed further in the Liquidity and Capital Resources section; and

(b) A lower interest rate environment in Canada and United States, the two primary markets in which the Company's debt is priced.

In December 2001, Mosaic reached an agreement with its banking syndicate to extend the existing credit facilities by one year to October 2004. The amended credit facility carries interest at bankers' acceptance rates or LIBOR plus 2.15% to 3.05% depending on Mosaic's funded debt to EBITDA ratio. As at December 31, 2001, Mosaic was eligible for the lowest credit spread under the facility.

Mosaic has floating-for-fixed interest rate swaps which have the effect of fixing the interest rate on US$25 million of debt at 5.85% and $50 million of Canadian dollar debt at 5.19%, plus the credit spread on both instruments.

Outlook for 2002:

Given the current level and mix of debt, the fiscal 2002 interest (excluding COPrS payments) is projected to be in the range of $13.5 to $15.5 million. This amount reflects the net impact of the following factors:

(a) Lower interest expense as a result of the full year impact of the issue of equity instruments in June 2001;

(b) Lower interest expense as a result of a share offering of 13.8 million common shares completed in March 2002.

(c) Increase in the credit spread on the amended bank agreement; and

(d) Continuing impact of a lower interest rate environment.

It is the Company's plan to lengthen the average life of its debt facilities. Typically, longer term instruments carry higher interest charges. As such, forecast interest expense could be significantly higher if the Company introduces longer term debt instruments into its capital structure during 2002.

Income Taxes

2001 Results:

Income taxes as a percentage of earnings before taxes and goodwill charges decreased from 23.6% in 2000 to 22.2% in 2001. The reduction in effective tax rate is mainly due to the use of tax planning strategies and changes in the mix of income from different tax jurisdictions. Management continues to actively monitor and manage the Company's tax expense.

Outlook for 2002:

Management's tax planning strategies are expected to keep the effective tax rate in 2002 in line with or marginally lower than the actual tax rate in fiscal 2001.

Cash Earnings from Continuing Operations, Diluted Cash Earnings Per Share From Continuing Operations, Goodwill Charges and Earnings from Continuing Operations

2001 Results:

Cash earnings, defined as earnings from continuing operations before goodwill charges increased by $1.7 million, a 4% increase over 2000, to $39.3 million in 2001. As a percentage of revenues, cash earnings were 5.2%, down from 7.6%, reflecting the impact of (i) previously articulated losses aggregating $7.8 to $8.0 million resulting from lower earnings on the AT&T program in the fourth quarter, the impact of September 11th on the Performance Solutions business, and the start-up losses on the Sainsbury's Mobile program; combined with (ii) increases in depreciation and amortization expense; and (iii) increased interest costs resulting from borrowing related to the Paradigm Direct (Mosaic Performance Solutions) acquisition.

Diluted cash earnings per share from continuing operations (Cash EPS) were $0.48 in 2001, a 4% decline from $0.50 in 2000. The decline is mainly due to the dilutive impact on per share earnings of the distributions on equity instruments, and the issue of common shares to finance acquisitions.

Diluted Pro Forma Cash EPS from continuing operations, reflecting the impact of the Mosaic Performance Solutions Earnout as if it had occurred on January 1, 2001, was $0.32 for fiscal 2001.

Goodwill charges from continuing operations, net of income taxes, increased to $10.3 million in 2001 from $6.7 million in 2000. The increase was mainly related to goodwill arising from the acquisitions in 2000, most significant being Mosaic Performance Solutions in the fourth quarter of 2000.

Effective January 1, 2002, the Company has adopted the new accounting standards released by the Canadian Institute of Chartered Accountants as applied to business combinations and accounting for acquisition related goodwill. This will effectively eliminate the ongoing amortization of goodwill but will require the company to periodically carry out tests that are significantly more rigorous than the existing standards to determine whether there has been impairment in the carrying value of goodwill and in the financial statements. The impact of the non-amortization approach to accounting for goodwill for the Company in 2002 will be to increase diluted earnings from continuing operations. The Company has not yet determined the effect, if any, on its financial position and results of operations of the new goodwill impairment testing that will be done in connection with these new accounting standards.

With the implementation of the new accounting standards in January 2002, Mosaic will no longer report cash earnings or cash EPS, as the reported net earnings and EPS will essentially be the same as the previously reported cash earnings and cash EPS number.

Earnings from continuing operations were $29.0 million in 2001 compared to $30.9 million in 2000. **Diluted earnings per share from continuing operations** (EPS) were $0.34 in 2001, a decrease from $0.41 in 2000. This decline in per share earnings was mainly due to higher goodwill charges of $0.05 on a per share basis and lower cash earnings per share as discussed before.

As discussed in notes 1(n) and 9(a) to the consolidated financial statements, the Company has retroactively adopted the new recommendations for determining earnings per share issued by the Canadian Institute of Chartered Accountants. The comparative per share earnings for 2000 have been restated to reflect retroactive adoption of the treasury stock method of calculating EPS.

Diluted Pro Forma EPS from continuing operations, reflecting the impact of the Mosaic Performance Solutions earnout as if it had occurred on January 1, 2001, was $0.20 for fiscal 2001.

Outlook for 2002:

Management estimates that diluted earnings per share for fiscal 2002 will be in the range of $0.30 to $0.32. The following table summarizes the outlook for the three months ending March 31, 2002 and for fiscal 2002.

(in millions of dollars)	Fiscal 2002 Estimates	Three months ending March 31, 2002 Estimates
Revenue	$730 to $750	$135 to $145
EBITDA	$89 to $91	$11 to $13
Diluted EPS	$0.30 to $0.32	$0.01 to $0.02

The above estimates exclude both the cost and savings of management's previously announced restructuring but include the impact of the March 2002 share offering. The Company is currently estimating the costs related to this restructuring to be in the range of $10 to $14 million, with this charge to be recorded in the first quarter of 2002. Annualized savings from such initiatives are estimated at $10 million with an estimated $5 million saving in fiscal 2002. It is the Company's intention to provide an update of the restructuring costs and related savings, including changes in guidance, in the first quarter reporting to shareholders.

DISCONTINUED OPERATIONS

During the current year, the Company divested its operations in Continental Europe through either the sale or closure of all businesses involved. This resulted in a one-time net of tax charge in the first quarter of 2001 of $8.3 million or $0.11 per diluted share. Management does not anticipate any further charges related to the exit from Continental Europe.

LIQUIDITY AND CAPITAL RESOURCES

The company's cash flows, as reflected in the Consolidated Statement of Cash Flows, are summarized in the table below:

SUMMARIZED CONSOLIDATED CASH FLOWS

(in thousands of dollars)	2001	2000
Net cash provided by (used in):		
Continuing operations	$ 59,169	$ 48,562
Net change in non-cash operating working capital from continuing operations	(31,125)	15,237
Financing activities	6,289	155,204
Investing activities (continuing operations)	(38,570)	(205,603)
Discontinued operations	(6,806)	(7,434)
Effect of exchange rate changes on cash	260	(589)
Net change in cash position	$ (10,783)	$ 5,377

During the year ended December 31, 2001, the company's **operating activities** generated $28.0 million in cash flows compared to $63.8 million in 2000. The decrease in operating cash flow was mainly due to the increase in working capital of $31.1 million in fiscal 2001 compared to a reduction of $15.2 million in working capital during fiscal 2000. The increase in working capital was required mainly to support the growth in revenues as well as the change in business mix arising from the discontinuance of the AT&T Wireless direct marketing contract and the working capital requirements of certain new client contracts during the year.

The net cash generated from **financing activities** was minimal compared to 2000. In June 2001, Mosaic completed a private placement of US$57 million of Canadian Originated Preferred Securities ("COPrS"). During the year the Company applied $72.2 million towards a net reduction of debt, primarily under the Senior credit facility, by applying the proceeds from the placement of the COPrS. Distributions on those equity instruments amounted to $4.6 million for the year. Repurchase of common shares, net of shares issued, used $3.7 million of cash during the year.

Investing activities used $38.6 million of cash during the year. Of this, $14.2 million was used for acquisition costs and payments pursuant to contingent consideration agreements related to acquisitions from prior years. In addition, $22.2 million was used to acquire property and equipment and $2.2 million was invested in other long-term assets. Included in this category are investments of approximately $18.0 million made during the year in technology related to the sales solutions, data collection and the customer acquisition businesses of the Company and brand partner reporting information systems.

In February 2001, management decided to divest operations in Continental Europe. The company completed the divestment in the first half of 2001 through the sale or closure of all the businesses involved. Cash used in fiscal 2001 in the closure and divestment of the discontinued operations was $6.8 million.

INVESTMENTS

The company ended the year with total assets of $820.8 million, an increase of 26.6% from 2000. The largest component of this increase was **goodwill**, with a recorded value of $589.7 million and an increase net of amortization of $158.9 million over last year.

The increase in goodwill arises from the following:

(a) Finalization of the Mosaic Performance Solutions earnout which added $143.0 million to goodwill;

(b) Exchange of the investment in Intelecom for its minority interest in eForce adding $9.2 million to goodwill;

(c) Strengthening of the U.S. dollar and British pound in relation to the Canadian dollar resulting in an increase in the recorded amount of goodwill by $20.2 million; less

(d) Amortization charge during the year of $13.5 million.

Management reviews the carrying value of goodwill on a regular basis to determine if impairment has occurred. This determination of each component of goodwill is made by comparing the carrying value of the goodwill to the undiscounted amounts of expected future cash flows. In addition, management monitors the traded market value of comparable marketing and sales services companies. Management is of the view that the carrying value of recorded goodwill has not been impaired, and in aggregate is recorded at less than fair market value.

As previously noted, effective January 1, 2002, the Company adopted the new accounting standards released by the Canadian Institute of Chartered Accountants as applied to business combinations and accounting for acquisition related goodwill and other intangible assets. The Company has not yet determined the effect, if any, on its financial position and results of operations of the new goodwill impairment testing that will be done in connection with these new accounting standards.

The reader is directed to notes 1(f) and 1(o) to the consolidated financial statements regarding the Company's accounting policies and the adoption of new accounting standards related to accounting for goodwill effective January 1, 2002.

Investments in **property and equipment** at the end of the 2001 were recorded at $63.1 million, which is net of accumulated depreciation of $36.7 million, up $17.3 million over the net book value of $45.8 million at December 31, 2000. The increase was mainly from investments in technology related to the sales solutions, data collection and the customer acquisition businesses of the Company. These investments enable Mosaic to offer enhanced value to its customers in terms of field force management and market intelligence at retail. Mosaic believes that its technology provide significant entry barriers for competition and provides a way to differentiate the Company's service offerings.

Mosaic's **working capital** as at December 31, 2001 excluding cash, indebtedness and accruals for acquisition liabilities was a net asset of $4.9 million compared to a net liability of $32.2 million as at December 31, 2000. Mosaic's working capital deficit declined year over year, with the most significant reason being the change in the mix of business at the end of the year with the discontinuance of the AT&T Wireless ("AT&T") direct marketing contract and the implementation of several new contacts in fiscal 2001.

Under the terms of the AT&T contract, Mosaic was required to refund AT&T for customers acquired by Mosaic which did not remain on the AT&T network for an agreed period of time ('churn chargeback"). In accordance with GAAP, Mosaic records the estimated churn chargeback as a reduction in revenues at the time revenue is first recognized. However, Mosaic did benefit from the fact that AT&T would, on a cash basis, prepay the entire commission in advance and would only recover the commission in respect of a churn chargeback when the customer subsequently left the AT&T network. With the significant reduction of marketing under this program in the fourth quarter, the Company lost the benefit of this prepayment with a resulting negative impact on the Company's working capital position.

CAPITAL RESOURCES

Mosaic's **long-term debt** at December 31, 2001 was $169.3 million, drawn almost entirely from Mosaic's Senior credit facility. It includes $6.6 million of liabilities related to capitalized leases. The Company's credit agreement was amended on November 30, 2001. The amended agreement provides a $300 million committed revolving term facility with a reduction in the available principal amount to $275 million by October 5, 2002, and to $250 million by October 5, 2003. The term of the facility is three years, which can be extended for a further year on each anniversary of the facility, currently due October 2004. For additional details, the reader is directed to note 5 to the consolidated financial statements.

As at December 31, 2001, Mosaic had unused capacity under this credit facility of approximately $123 million subject to draw limits arising from financial covenants under the facility. This is adequate to meet Mosaic's working capital requirements, ongoing capital expenditure and commitments for acquisition related payments.

It is the Company's plan in 2002 to:

(a) Obtain additional sources of capital to reduce its reliance on its syndicated bank facility;

(b) Lengthen the average life of its debt facilities through the use of longer term instruments; and

(c) Reduce its overall debt levels (including COPrS) by year end.

Mosaic's **shareholders' equity** was $419.0 million as at December 31, 2001, an increase of $212.8 million, from $206.2 million at December 31, 2000. This increase resulted from:

(a) The issuance of US $57 million (C$85.3 million) in Canadian Originated Preferred Securities ("COPrS");

(b) The recording of Mosaic Performance Solutions earnout obligations of $98.9 million which are to be settled in shares;

(c) The net issuance of $4.1 million in shares, which includes $5.4 million net of cancellations in payments pursuant to contingent consideration agreements related to a prior year's acquisition, $1.1 million under Mosaic's Employee Share Purchase and Option plan and $1.0 million upon exercise of employee share options, partially offset by the repurchase of $3.4 million in shares under the Company's Normal Course Issuer Bid;

(d) Net earnings of $20.7 million, partially offset by a reduction of $6.0 million in retained earnings due to a loss of $3.3 million on the repurchase of shares at prices in excess of the average issue price and distributions on COPrS of $2.7 million, net of income taxes; and

(e) A change of $9.8 million in the foreign currency translation adjustment in respect of Mosaic's net investment in self-sustaining foreign operations due to a strengthening of the U.S. dollar and British pound in relation to the Canadian dollar.

Excluding the COPrS instrument, the company to date has not paid any dividends on its common shares, and does not intend to do so in 2002.

MARCH 2002 COMMON SHARE OFFERING

In March 2002, Mosaic completed a bought deal public common share offering of 13.8 million common shares at a price of $3.80 per share for gross proceeds of $52.4 million. These amounts included 1.8 million common shares, which were issued as a result of an over allotment option granted to the underwriters of the offering by the Company.

The following table sets out the capitalization of the Company as at December 31, 2001: (i) on an actual basis, as reflected in the Company's consolidated financial statements as at December 31, 2001; and (ii) on a pro forma basis to reflect the issue of the Company's 13,800,000 common share offering:

Consolidated Capitalization at December 31, 2001 (in thousands of dollars)

	Actual (audited)	*Pro Forma*[1] (unaudited)
Debt		
Bank indebtedness	$ 5,943	$ 5,943
Senior credit facility	162,710	161,779
Accrued acquisition liabilities [2]	72,845	30,710
Obligations under capital leases (including current portion)	10,465	10,465
Total Debt	251,963	208,897
Minority Interest	2,685	2,685
Shareholders' Equity		
Common shares, without par value, unlimited authorization; issued 75,194,371 as at December 31, 2001; *Pro forma* 95,734,371	191,578	249,090
13,800,000 common share offering [3]	–	50,678
Other equity instruments		
COPrS	85,350	85,350
Paradigm earn-out obligation –January 15, 2002 [4]	57,512	–
Paradigm earn-out obligation – April 1, 2002 [5]	41,340	41,340
Total Share Capital	375,780	426,458
Cumulative foreign exchange translation adjustment	(3,849)	(3,849)
Retained earnings	47,057	47,057
Total Shareholders' Equity	418,988	469,666
Total Capitalization	$ 673,636	$ 681,249

(1) The above table reflects on a pro forma basis the results of the issuance of the March 2002 common share offering and the payment of the obligated US$26.5 million cash and share (C$42.1 million) portion of the Paradigm earn-out payment and share issue subsequent to December 31, 2001

(2) On January 15, 2002, the cash portion of the Paradigm earn-out payment of US$26.5 million (C$42.1 million) was settled increasing the balance owing under the senior credit facility.

(3) After deduction of the underwriters' fee of $2.6 million and estimated expenses of the offering of $0.3 million net of applicable income tax benefits of approximately $1.1 million in the aggregate.

(4) Share capital at December 31, 2001 includes the Paradigm earn-out obligation that was settled in part on January 15, 2002 by the issuance of 20,540,000 common shares of the Company.

(5) Share capital at December 31, 2001 includes the balance of the Paradigm earn-out obligation that will be settled in April 2002.

Net proceeds of the March 2002 common share offering were used to reduce the balance owing under the senior credit facility. The reduction in debt is expected to reduce 2002 interest expense by approximately $1.5 million or $0.01 per share.

OUTSTANDING SHARES

At December 31, 2001, Mosaic had approximately 75 million common shares outstanding, and 77 million shares on a diluted basis. The difference between the basic and diluted common shares relates to employee and director stock options as calculated by using the treasury stock method for diluted EPS.

In August 2001, the Toronto Stock Exchange accepted Mosaic's intention to renew its Normal Course Issuer Bid (the "Bid") through the facilities of the TSE. Under the terms of renewal, the number of common shares that can be purchased under the bid will be 3.8 million shares during the period from August 8, 2001 to August 7, 2002. As at December 31, 2001, the Company had repurchased 1.0 million shares under the terms of the Bid.

As previously set out, the Company issued 20.54 million shares in January 2002 as partial consideration for the Mosaic Performance Solutions earnout. In addition, up to a maximum of 12.48 million common shares could be issued in lieu of cash at Mosaic's option on April 1, 2002. It is currently the Company's intention to issue the entire April 1, 2002 final consideration in shares. The following table summarizes the changes in the number of common shares on a pro-forma basis for the below noted transactions:

Pro forma Changes to Basic Common Shares	Common Shares
December 31, 2001 per audited financial statements	75,194,371
January 15th, 2002 issue for Paradigm earn-out payment	20,540,000
March 2002 common share issue	13,800,000
April 2002 issue for final Paradigm earn-out payment	12,480,000
Total pro forma basic common shares outstanding	122,014,371

At December 31, 2001, outstanding stock options had an average exercise price of $5.96, with exercise prices ranging from $1.90 to $21.19. Stock options are issued to employees under the Company's Employee Share Purchase and Option Plan and to employees and directors under the Company's Incentive Compensation Plan. The exercise price of these options is set at no less than fair market value of the common shares at the time of grant. The reader is directed to note 7 to the consolidated financial statements for further details on the Company's stock based compensation plans.

FINANCIAL RISK AND UNCERTAINTIES

In the normal course of business, the financial position and results of operations of the company routinely are subject to a variety of risks. Risks reflect uncertainty regarding potential outcomes from changes in political, economic and capital market conditions. Mosaic's management regularly assesses the risks associated with business transactions and the business environment within which the Company operates and has established policies and business practices to protect against adverse effects of these and other potential exposures. As a result, the Company does not anticipate any material losses from these risks. The Company is subject to these risks and uncertainties and actively manages them as follows:

Client and credit risk:

Mosaic manages its credit risk with respect to trade accounts receivable by dealing primarily with large creditworthy customers and by collecting, whenever possible, in advance of rendering services. Management is of the view that the Company is not subject to a significant concentration of credit risk. AT&T Wireless through multiple service contracts represented over 27% of revenues in fiscal 2001 with all other clients individually accounting for less than 7% of total revenues.

Mosaic is also subject to revenue uncertainties in respect of clients, including loss of clients, cancellation or delay of committed client projects, and the undertaking of unprofitable client work. These risks are reduced through the use of client contracts and project budgeting systems.

Workforce:

The Company is subject to labour laws across a number of legal jurisdictions. Changes in labour laws can impact the cost and productivity of the workforce. Additionally, current economic conditions provide for low unemployment rates in certain markets, resulting in increased competition for labour. The Company manages these risks by monitoring labour laws and adapting its policies to comply with regulations. In addition, the Company uses innovative tools (e.g. web and university-based recruiting and stock compensation plans) to attract new employees. The Company has adequate insurance to cover against any potential Employment Practices Liability.

Electronic security risks:

Mosaic uses a number of Information Technology ("IT") tools in the course of delivering its services. The Company also has direct access to IT systems of certain of its clients in order to activate customers, thus exposing Mosaic to risks related to unauthorized access to its computer systems, mishandling or destruction of data and data privacy issues. The Company manages these risks through the use of appropriate electronic privacy and security tools. The Company also carries out regular testing of its security systems to ensure their functionality.

Interest rate risk:

The Company's debt under its Senior credit facility bears interest subject to floating rates and the Company has exposure to movements in short-term rates. As explained further in notes 5(b)(i) and 5(b)(ii) to the consolidated financial statements, the Company manages this risk in part through floating-for-fixed interest rate swap arrangements with large financial institutions. The effect of these instruments at the end of 2001 was to fix the rate on US $25 million of debt at 8.0%, and on $50 million of Canadian dollar denominated debt at approximately 7.34%, based on the credit spread charged on the Senior credit facility at December 31, 2001.

Foreign currency risk:

Changes in the relative values of non-Canadian currencies to the Canadian dollar affect the Company's financial position. A significant part of the Company's operations are concentrated in self-sustaining operations in the United States and the United Kingdom. The operations in the United States are naturally hedged, as the cash borrowed to pay for the cash component of those acquisitions was borrowed in US dollars with US$69 million held in debt instruments and US$57 million in equity instruments denominated in that currency at December 31, 2001.

The Company has entered into a series of short-term foreign currency forward contracts to manage its exposure to movements in the UK pound and the US dollar. The forward contracts are designated as hedges against the UK pound and US dollar receipts under certain long-term client contracts. At December 31, 2001, the nominal value of the UK pound forward contracts amounted to £5.7 million and the nominal value of the US dollar forward contracts amounted to US$20.6 million. No other currencies are material to Mosaic's operations.

Commercial risks:

Business operations are subject to normal commercial risks. Mosaic has a consolidated umbrella liability insurance policy, and management believes it has adequate and appropriate insurance in respect of insurable commercial risks.

CHANGES IN ACCOUNTING PRINCIPLES

Earnings per share:
As detailed in note 1(n) and 9(a) to the consolidated financial statements, the Company has retroactively adopted the new recommendations for determining earnings per share issued by The Canadian Institute of Chartered Accountants which effectively requires the use of the 'treasury stock method' and largely harmonizes Canadian standards with those used in the United States.

Business combinations and acquisition related goodwill:

Effective January 1, 2002, the Company adopted the new accounting standards released by the Canadian Institute of Chartered Accountants as applied to business combinations and accounting for acquisition related goodwill and other intangible assets. For more details refer to note 1(o) to the consolidated financial statements.

Stock-based compensation:

Effective January 1, 2002, the Company adopted the new accounting standards as it relates to stock-based compensation arrangements. For more details refer to note 1(o) to the consolidated financial statements.

Hedging Relationships:

The Canadian Institute of Chartered Accountants has recently released Accounting Guideline No. 13, Hedging Relationships. The new guideline will be applicable to hedging relationships in effect in fiscal years beginning on or after July 1, 2002. It is not applicable to prior periods, but requires the discontinuance of hedge accounting for hedging relationships established in prior periods that do not meet the conditions for hedge accounting at the date it is first applied. The Company has not yet assessed the impact of the new accounting guideline on our financial statements.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing earnings measures in accordance with Generally Accepted Accounting Principles (GAAP), the Company presents certain supplemental earnings measures, specifically - EBITDA, Cash earnings, and Pro forma earnings. These earnings measures do not have any standardized meaning prescribed by GAAP and are therefore may not be comparable to similar measures presented by other companies.

(a) EBITDA - defined as earnings from continuing operations before depreciation and amortization, interest, minority interest and income taxes and goodwill charges. This measure is provided to assist investors in determining the ability of the Company to generate cash from operations. EBITDA is disclosed in the statement of income.

(b) Cash earnings - defined as earnings from continuing operations before net-of-tax goodwill charges. Cash earnings per share can be determined from the statement of income by dividing earnings from continuing operations before goodwill charges less the distributions on equity instruments by the weighted average number of shares outstanding.

(c) Pro forma earnings per share reflects the impact of Paradigm Earnout as if it had occurred on January 1, 2001 to assist investors assess the potential dilution of this transaction. The determination of pro forma share earnings is based on the following assumptions as disclosed on page 5.

(d) Pro forma revenue gives effect to the inclusion of Mosaic Performance Solutions revenue as if the acquisition had occurred on January 1, 2000. This information is provided to enhance comparability between periods.

FORWARD LOOKING STATEMENTS

Mosaic and its representatives periodically make written and spoken forward-looking statements and projections, including those contained in the annual and quarterly reports to shareholders. Substantial risks and uncertainties exist with respect to such factors as the maintenance of client relationships, client credit risk, the performance of capital markets, changes in interest rates, changes in foreign currency exchange rates, the retention of key management and availability of employees for hire, changes in labour and other laws to which the Company is subject, the impact of terrorism on consumer and business behavior, competition, and overall economic performance, as well as various other risk factors that will be listed from time to time in Mosaic's report or other forms of public disclosure whether written or oral. Because of these risks and uncertainties, actual results could differ materially from those contained in the Company's projections or other forward-looking statements. Mosaic cautions readers when making decisions to consider the risks and uncertainties inherent in relying on forward-looking statements made by the Company and its representatives at this or any other time.

RESPONSIBILITY FOR FINANCIAL REPORTING

The information in this annual report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and in accordance with the accounting policies set out in note 1 to the consolidated financial statements. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Management believes that reasonable care and judgment is applied in making such estimates and assumptions. Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. Management reviews these accounting controls on an ongoing basis and reports its findings and recommendations to the Audit Committee of the Board of Directors. The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of three members who are outside directors. This committee reviews the consolidated financial statements with management and the independent auditors, Ernst & Young LLP, prior to submission to the Board for approval. It also reviews the recommendations of Ernst & Young LLP for improvements to internal controls as well as the actions of management to implement such recommendations.

Marc Byron

Marc Byron
Vice Chairman & Chief Executive Officer

Ben Kaak
Executive Vice President and
Chief Financial Officer

February 18, 2002

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Mosaic Group Inc. as at December 31, 2001 and 2000 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada

February 18, 2002

MOSAIC GROUP INC.

Consolidated Statements of Operations
(In thousands of dollars, except per share amounts)

Years ended December 31, 2001 and 2000

	2001	2000
Revenue	$ 761,654	$ 493,662
Direct costs	545,465	318,760
Gross profit	216,189	174,902
Selling, general and administrative	131,561	107,605
Earnings from continuing operations before depreciation and amortization, interest, minority interest, income taxes and goodwill charges (EBITDA)	84,628	67,297
Depreciation and other amortization	17,858	9,422
Interest	16,811	8,994
Minority interest	(629)	(393)
Earnings from continuing operations before income taxes and goodwill charges	50,588	49,274
Income taxes (note 8):		
Current	10,293	10,651
Future	960	976
	11,253	11,627
Earnings from continuing operations before goodwill charges	39,335	37,647
Goodwill charges, net of income taxes of $3,151 (2000 - $1,088)	10,305	6,738
Earnings from continuing operations	29,030	30,909
Loss from discontinued operations (note 13)	(8,324)	(28,296)
Net earnings	$ 20,706	$ 2,613
Earnings per share (note 9(a)):		
Basic	$ 0.24	$ 0.04
Diluted	$ 0.23	$ 0.03
Earnings per share from continuing operations (note 9(a)):		
Basic	$ 0.35	$ 0.43
Diluted	$ 0.34	$ 0.41
Earnings per share from continuing operations before goodwill charges (note 9(a)):		
Basic	$ 0.48	$ 0.52
Diluted	$ 0.48	$ 0.50
Weighted average number of shares outstanding (in thousands) (note 9(a)):		
Basic	75,678	72,060
Diluted	76,990	75,438

See accompanying notes to consolidated financial statements.

MOSAIC GROUP INC.

Consolidated Statements of Cash Flows
(In thousands of dollars, except per share amounts)

Years ended December 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operations:		
Earnings from continuing operations	$ 29,030	$ 30,909
Items not involving cash:		
Depreciation and other amortization	17,858	9,422
Non-cash interest and finance costs	1,645	910
Future income taxes	960	976
Goodwill charges	10,305	6,738
Minority interest	(629)	(393)
Cash flow from continuing operations	59,169	48,562
Net change in non-cash operating working capital from continuing operations	(31,125)	15,237
	28,044	63,799
Financing:		
Issue of common shares, net of costs and share repurchases	(3,720)	6,301
Issue of equity instruments, net of costs (note 6(c))	83,893	–
Proceeds on issue of long-term debt	49,980	181,800
Repayment of long-term debt	(122,144)	(34,587)
Increase (decrease) in bank indebtedness	2,798	(1,219)
Distributions on equity instruments (notes 1(m) and 6(c))	(4,561)	–
Minority investment in subsidiary	43	2,909
	6,289	155,204
Investments (continuing operations):		
Acquisitions of businesses, net of cash acquired	(14,162)	(169,544)
Additions to property and equipment	(22,177)	(26,530)
Additions to other assets	(2,231)	(9,529)
	(38,570)	(205,603)
Impact of foreign exchange effect on cash	260	(589)
Net cash used in discontinued operations	(6,806)	(7,434)
Increase (decrease) in cash position	(10,783)	5,377
Cash, beginning of year	15,413	10,036
Cash, end of year	$ 4,630	$ 15,413
Cash flow per share from continuing operations (note 9(c)):		
Basic	$ 0.78	$ 0.67
Diluted	$ 0.77	$ 0.64
Supplementary cash flow disclosures (note 9(c))		

See accompanying notes to consolidated financial statements.

MOSAIC GROUP INC.

Consolidated Balance Sheets
(In thousands of dollars)

As at December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash	$ 4,630	$ 15,413
Accounts receivable	92,538	77,387
Work in progress and unbilled revenue	21,825	23,430
Inventory and other current assets	17,936	16,299
Net assets of discontinued operations (note 13)	–	5,781
	136,929	138,310
Property and equipment (note 3)	63,110	45,763
Goodwill, net of accumulated amortization of $31,755 (2000 - $18,298)	589,711	430,824
Future income taxes (note 8)	18,221	7,020
Other assets (note 4)	12,793	26,168
	$ 820,764	$ 648,085
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 5(a))	$ 5,943	$ 3,145
Accounts payable and accrued liabilities	99,968	129,130
Deferred revenue	24,697	23,576
Accrued acquisition liabilities	72,845	38,424
Income taxes payable	2,705	2,424
Current portion of long-term debt (note 5(b))	3,828	272
	209,986	196,971
Long-term debt (note 5(b))	169,347	227,337
Future income taxes (note 8)	19,758	14,287
Minority interest	2,685	3,321
Shareholders' equity:		
Share capital (note 6)	375,780	187,442
Foreign currency translation adjustment	(3,849)	(13,630)
Retained earnings	47,057	32,357
	418,988	206,169
Commitments (notes 2 and 10)		
Contingencies (notes 11 and 14)		
	$ 820,764	$ 648,085

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(Signed) "William J. Biggar" Director

(Signed) "Theodore D. Sands" Director

MOSAIC GROUP INC.

Consolidated Statements of Retained Earnings
(In thousands of dollars)

Years ended December 31, 2001 and 2000

	2001	2000
Retained earnings, beginning of year	$ 32,357	$ 30,455
Net earnings	20,706	2,613
Repurchase of shares in excess of average issue price	(3,280)	(711)
Distributions on equity instruments, net of income taxes of $2,231 (notes 1(m) and 6(c))	(2,726)	–
Retained earnings, end of year	$ 47,057	$ 32,357

See accompanying notes to consolidated financial statements.

Mosaic Group Inc. ("Mosaic" or the "Company") is incorporated under the laws of Ontario. Mosaic, with operations in Canada, the United States, and the United Kingdom, is a world leading provider of results-driven, measurable marketing solutions for global brands. Mosaic specializes in three functional solutions: Direct Marketing Customer Acquisition and Retention Solutions; Marketing & Infrastructure Solutions; and Sales Solutions & Research, offered as integrated end-to-end solutions. Mosaic differentiates itself by offering technology based solutions providing measurable and sustainable results for its brand partners (clients).

1. Significant accounting policies:

These consolidated financial statements are the representation of management and have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Significant accounting policies followed by the Company are summarized below:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries from the dates of acquisition. All significant intercompany accounts and transactions have been eliminated.

(b) Revenue recognition and multi-year contract accounting:

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the services have been provided to the customer, the sale price is fixed and determinable and payment is reasonably assured. Work in progress is recorded at the lower of cost and net realizable value. Revenue billed in advance in accordance with contract terms is recorded as deferred revenue. Revenue, which has been earned but not billed, is recorded as unbilled revenue.

Revenue from fixed price long-term service contracts is recognized over the contract term based on the percentage of services that are provided during the period compared with the total estimated services to be provided over the entire contract. Losses on fixed price contracts are recognized during the period in which the loss first becomes apparent. Contract development costs incurred prior to the commencement of new contracts are deferred and amortized over the term of the contract.

1. **Significant accounting policies (continued):**

(b) Revenue recognition and multi-year contract accounting (continued):

Revenue from customer acquisition services is recognized only when the Company has completed all aspects related to the acquisition of the specific customer as required under the terms of its acquisition or distribution agreement with the Company's client. In certain cases, revenue is recognized on activation of the customer in the client's service network as required by the terms of the contract. In other cases the Company is required to obtain from the brand partner customer a service contract for the provision of services, which is the point at which revenue is recognized. Revenue is recorded net of allowances in respect of estimated customer attrition or churn where such attrition is charged back to the Company.

(c) Inventory:

Inventory is valued at the lower of cost and replacement value. Cost is determined on a first-in, first-out basis.

(d) Investments:

Investments over which the Company does not exert significant influence are accounted for using the cost method. If there is an other than temporary decline in value, investments are written down to provide for the loss.

(e) Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method over the following periods:

Building	40 years
Computer hardware	3 - 5 years
Computer software	1 - 7 years
Office furniture and equipment	3 - 10 years
Motor vehicles	4 years
Leasehold improvements	Over the initial lease term, plus one renewal period

(f) Goodwill:

Goodwill, which represents the excess of the purchase price over the fair values of net identifiable assets acquired, is amortized on a straight-line basis over its estimated life, ranging from ten to forty years. Goodwill charges are presented net of the related income tax benefit of deductible goodwill. Periodically, management reviews the carrying value

1. Significant accounting policies (continued):

(f) Goodwill (continued):

of goodwill to determine if an impairment has occurred. The Company measures any potential impairment by comparing the carrying value to the undiscounted amounts of expected future cash flows. See note 1(o).

(g) Deferred financing costs:

Deferred financing costs represent the unamortized costs related to the establishment of the revolving term senior credit facility. Amortization is provided on a straight-line basis over the initial term of the revolving facility plus one renewal period and is included in interest expense for the year.

(h) Pre-operating expenses:

The Company capitalizes expenditures net of incremental revenue incurred to develop significant new lines of business. Capitalization occurs where the expenditure is incremental in nature and directly related to placing the new business into service, and where, in the view of management, it is probable that the expenditure is recoverable from the future operations of the new business. Capitalization ceases when the business is ready to commence commercial operations. Capitalized pre-operating expenses are amortized on a straight-line basis over the expected period of benefit, to a maximum of three years.

(i) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet dates. Income and expense items are translated at the exchange rate in effect at the date of the transaction, except where hedged. Resulting exchange gains or losses are included in income. Unrealized gains or losses on long-term debt are deferred and amortized over the remaining term of the debt, except for unrealized gains or losses on long-term debt which is designated as a hedge of the self-sustaining operations, which are deferred and included as a separate component of shareholders' equity.

The Company's foreign subsidiaries are classified as self-sustaining foreign operations and therefore, the Company uses the current rate method, whereby the assets and liabilities of such foreign operations are translated at the exchange rate in effect at the consolidated balance sheet dates. Revenue and expenses are translated at the average exchange rate for the year. Translation gains or losses are deferred and included as a separate component of shareholders' equity.

1. **Significant accounting policies (continued):**

(j) Financial instruments:

The Company enters into interest rate swap arrangements to manage its exposure to interest rate fluctuations. The Company accounts for these interest rate swaps as hedges and, as a result, the carrying values of such swaps are not adjusted to reflect their current market values. The differential paid or received on interest rate swap agreements is recognized as part of interest expense.

The Company enters into short-term foreign currency forward contracts to manage its exposure to foreign currency fluctuations, wherein the Company sells specified foreign currencies for Canadian dollars for settlement on specified future dates which coincide with the receipt of contracted foreign currency revenue streams. The Company accounts for these foreign currency forward contracts as hedges and, as a result, the carrying values of such contracts are not adjusted to reflect their current market values. The underlying exchange rate in the forward contract is used to translate the revenue stream from the hedged instrument.

(k) Income taxes:

The Company follows the liability method of accounting for income taxes. Future income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes, giving rise to future income tax assets and liabilities. Future income tax assets and liabilities are measured using the enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are likely to be recovered or settled. The effects of changes in tax rates on future income tax assets and liabilities are recognized in income in the period that those changes are enacted or substantively enacted. Valuation allowances are recognized to reduce the future tax assets to the amount that is more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income.

(l) Stock-based compensation plans:

The Company has stock-based compensation plans which are described in note 7. No compensation expense is recognized for these plans when options are issued to employees or directors. Any consideration paid by employees or directors on exercise of options is credited to share capital, net of related costs. See note 1(o).

1. Significant accounting policies (continued):

(m) Equity instruments:

Where the Company has the ability to satisfy distribution and redemption obligations on its equity instruments by the issue of common shares, these securities are included in shareholders' equity and any distributions thereon, net of income taxes, are recorded as a reduction of retained earnings.

(n) Earnings per share:

The Company has retroactively adopted the new recommendations for determining earnings per common share issued by The Canadian Institute of Chartered Accountants. Accordingly, basic earnings per share have been determined by dividing net income less distributions on equity instruments by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated in accordance with the treasury stock method and are based on the weighted average number of common shares and dilutive common share equivalents outstanding.

(o) New accounting standards to be implemented:

Effective January 1, 2002, the Company adopted the new accounting standards released by The Canadian Institute of Chartered Accountants as applied to business combinations and accounting for acquisition related goodwill and other intangible assets. This will effectively eliminate the ongoing amortization of goodwill but will require the Company to periodically carry out tests that are significantly more rigorous than the existing standards to determine whether there has been impairment in the carrying value of goodwill in the consolidated financial statements. The impact of the non-amortization approach to accounting for goodwill for the Company in 2002 will be to increase diluted earnings from continuing operations. The Company has not yet determined the effect, if any, on its financial position and results of operations of the new goodwill impairment testing that will be done in connection with these new accounting standards.

Effective January 1, 2002, the Company adopted the new accounting standard applicable to stock-based compensation which requires that all issuances of stock or stock options to non-employees in exchange for goods or services be accounted for at fair value. Direct awards of stock in exchange for employee services would also be accounted for at fair value. Stock appreciation rights and awards of stock options that call for settlement in cash will be accounted for as liabilities in an amount equal to the difference between the exercise price and the fair value of the stock at the date of the grant; the amount of the liability recognized would be remeasured at each reporting date to reflect changes in the fair value of the stock.

(Tabular amounts in thousands of dollars, except for share and per share amounts)

1. **Significant accounting policies (continued):**

(o) New accounting standards to be implemented (continued):

Stock appreciation rights that call for settlement in stock would be accounted for either at their fair value or in the same way as stock appreciation rights to be settled in cash. The Company does not expect the effect of the adoption of the new accounting standard related to stock-based compensation to be material.

2. **Business combinations and investments:**

The Company did not acquire any businesses in 2001, however, the contingent consideration payments for previous acquisitions were finalized during the year as discussed below:

(a) Paradigm Direct LLC:

In the fourth quarter of 2001, the Company entered into an agreement with the vendors of Paradigm Direct LLC ("Paradigm"), now renamed Mosaic Performance Solutions, amending certain terms related to the contingent consideration ("earnout") payable as per the original merger agreement. Shareholders approved the terms of the amending agreement on January 7, 2002. The additional consideration payable has been included in goodwill. The following table summarizes the amounts payable under the amended terms:

20,540,000 shares issued in January 2002	$ 57,512
Payable in cash or common shares at Mosaic's option, US$26,000,000 or a maximum of 12,480,000 shares	41,340
Total obligations included in share capital	98,852
Cash paid in January 2002	42,135
Additional transaction costs	2,012
Total additional consideration	$ 142,999

(b) M:\DRIVE:

Included in accrued acquisition liabilities are notes payable amounting to $10.2 million issued in settlement of further cash consideration payable as per the terms of the acquisition. These notes are interest bearing and payable in June 2002. In addition

(Tabular amounts in thousands of dollars, except for share and per share amounts)

2. Business combinations and investments (continued):

(b) 793,979 common shares valued at $5.6 million were issued to the vendors of M:\DRIVE in February 2001.

(c) Other prior years' acquisitions:

During fiscal 2001, a further $0.4 million in cash consideration, and 28,318 common shares valued at $0.2 million were paid to the vendors in respect of prior years' acquisitions. In addition, 57,142 common shares previously issued for acquisitions were cancelled during the year.

The acquisitions completed by the Company in fiscal 2000 are summarized below:

	Paradigm	M:\DRIVE	Other	Total
	(a)	(b)		
Date acquired	November 2000	April 2000		
Domicile	USA	UK		
Percentage acquired	100%	100%		
Cash, including transaction costs, net of cash acquired	$ 147,851	$ 20,621	$ 20,811	$ 189,283
Common shares of the Company	25,799	3,008	95	28,902
Additional future consideration to be satisfied with shares of the Company	-	5,700	186	5,886
	173,650	29,329	21,092	224,071
Costs of integration	4,114	500	450	5,064
Total consideration, after integration costs	$ 177,764	$ 29,829	$ 21,542	$ 229,135
Assigned value of assets and liabilities acquired:				
Property and equipment	$ 2,470	$ 911	$ 487	$ 3,868
Other assets	2,543	-	-	2,543
Goodwill	212,235	28,514	21,524	262,273
Long-term debt	-	-	(154)	(154)
Non-cash working capital	(39,484)	404	441	(38,639)
Minority investment	-	-	(756)	(756)
	$ 177,764	$ 29,829	$ 21,542	$ 229,135
Goodwill amortization period, straight-line basis	40 years	30 years	10 - 30 years	
Number of common shares issued	2,344,728	196,960	25,013	2,566,701

(Tabular amounts in thousands of dollars, except for share and per share amounts)

2. Business combinations and investments (continued):

All fiscal 2000 acquisitions have been accounted for using the purchase method. Shares to be issued in the future to satisfy additional consideration are valued at the trading price on the date when the parties reached agreement. Integration costs only include costs directly related to the acquisition, which are incremental to the Company and were identified at the time of the acquisition. Generally, integration costs include costs for workforce reductions, premises closures and the implementation at the acquired company of Mosaic systems and processes.

(a) Paradigm Direct LLC:

On November 16, 2000, the Company acquired 100% of Paradigm, a New Jersey based company that uses a technology-based direct marketing platform to acquire customers for some of America's largest Fortune 100 service brands in telecommunications, financial services, insurance and home services.

(b) M:\DRIVE:

On April 19, 2000, the Company acquired 100% of M:\DRIVE, a UK-based agency that provides integrated marketing services to the IT industry. M:\DRIVE offers a fully integrated array of marketing and sales services, including field marketing and merchandising, training, data management, direct marketing, sales promotion and telemarketing.

(c) During fiscal 2000, a further $2.5 million in additional cash consideration and 219,034 in common shares valued at $3.4 million were paid to the vendors of prior years' acquisitions.

3. Property and equipment:

2001	Cost	Accumulated depreciation	Net
Land and building	$ 9,694	$ 219	$ 9,475
Leasehold improvements	8,660	2,446	6,214
Computer hardware and software	66,794	27,547	39,247
Office furniture and equipment	13,458	5,865	7,593
Motor vehicles	1,204	623	581
	$ 99,810	$ 36,700	$ 63,110

(Tabular amounts in thousands of dollars, except for share and per share amounts)

3. **Property and equipment (continued):**

2000	Cost	Accumulated depreciation	Net
Land and building	$ 9,361	$ 52	$ 9,309
Leasehold improvements	7,462	1,561	5,901
Computer hardware and software	36,967	14,240	22,727
Office furniture and equipment	13,045	6,246	6,799
Motor vehicles	1,892	865	1,027
	$ 68,727	$ 22,964	$ 45,763

Depreciation expense for continuing operations for the year amounted to $16,761,000 (2000 - $6,152,000).

4. **Other assets:**

	2001	2000
Contract development and pre-operating costs, net of accumulated amortization of $1,111 (2000 - $423)	$ 5,879	$ 7,449
Deferred financing costs, net of accumulated amortization of $3,198 (2000 - $1,554)	4,365	5,200
Investment in Intelecom at cost	-	9,148
Other	2,549	4,371
	$ 12,793	$ 26,168

During the year the Company exchanged its 20% interest in Intelecom for the 25% investment in eForce previously held by Intelecom. As a result of the transactions Mosaic will directly hold 100% of the common share capital of eForce and will no longer have any direct or indirect ownership in Intelecom.

(Tabular amounts in thousands of dollars, except for share and per share amounts)

5. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

The Company has a £1,250,000 (Cdn.$2,900,000) (2000 - £1,250,000) sterling demand facility, bearing interest at the London Inter-Bank Offering Rate plus 1.5%, secured by accounts receivable. The amount drawn under this facility was £1,200,000 (Cdn.$2,784,000) at December 31, 2001 (2000 - nil). At year-end the effective interest rate under this facility was 5.55%.

(b) Long-term debt:

	2001	2000
Senior credit facility	$ 162,710	$ 225,497
Obligations under capital leases	10,465	2,112
	173,175	227,609
Current portion	(3,828)	(272)
	$ 169,347	$ 227,337

Interest expense on long-term debt for the year ended December 31, 2001 was $15,459,000 (2000 - $8,594,000).

Senior credit facility:

The Company's credit agreement was amended on November 30, 2001. The amended agreement provides a $300 million committed revolving term facility, which can be drawn in Canadian or US dollars. The terms of the amended agreement provide for a reduction in the available principal amount to $275 million by October 5, 2002, and to $250 million by October 5, 2003. The term of the facility is three years, which can be extended for a further year on each anniversary of the facility, currently due October 2004. Terms of the expanded and amended facility are not materially different from previous terms with the exception of interest rates and standby charges. Interest rates on the facility are variable based on the level of the funded debt to EBITDA ratio. Canadian dollar loans bear interest at bankers' acceptance rate plus 2.15% to 3.05% or bank prime rates plus 1.4% to 2.25%, with US dollar loans bearing interest at US base rate plus 1.4% to 2.25% or the London Inter-Bank Offering Rate plus 2.15% to 3.05%. At year-end the weighted average effective interest rate under the facility was 5.85% (2000 – 7.69%).

(Tabular amounts in thousands of dollars, except for share and per share amounts)

5. Bank indebtedness and long-term debt (continued):

Senior credit facility (continued):

At December 31, 2001, borrowings under the senior credit facility included:

(i) US$69,000,000 (2000 – US$113,000,000) in US dollar denominated debt, all of which was determined to be a hedge of the Company's investment in its US operations. A five-year interest rate swap for notional principal of US$25,000,000 was purchased during 1998 to fix the rate of interest on a portion of debt, with the year-end rate at 8.0% (2000 – 7.25%); and

(ii) Canadian dollar denominated debt of $53,000,000. A three-year interest rate swap for notional principal of $50,000,000 was purchased during 2001 to fix the rate of interest on a portion of Canadian dollar denominated debt, with the year-end rate at 7.34%.

Under the terms of the stated facility, the Company is required to maintain certain financial ratios and is restricted from paying dividends. In addition, future acquisitions are subject to lender review and must comply with certain predetermined criteria.

The term debt is under the senior credit facility, collateralized by the pledge of a debenture collateralized by fixed and floating charges on substantially all of the assets of the Company and its wholly-owned subsidiary companies.

Obligations under capital leases:

The following is a schedule of future minimum annual lease payments under capital leases for equipment:

2002	$ 4,057
2003	4,729
2004	2,893
	11,679
Amount representing interest	(1,214)
Balance of obligation	$ 10,465

(Tabular amounts in thousands of dollars, except for share and per share amounts)

6. **Share capital:**

(a) Authorized:

The authorized share capital of Mosaic consists of the following:

(i) Unlimited number of preference shares. Subject to the Company's articles, the Board of Directors is authorized to fix before issuance the description, rights, privileges, restrictions and conditions attaching to the preference shares of each series; and

(ii) Unlimited number of common shares, without par value.

(b) Issued and outstanding at December 31:

	Number of shares	Amount
Common shares outstanding, December 31, 1999	70,919,560	$ 148,770
Issued on acquisitions (note 2)	2,785,735	32,323
Issued on exercise of options (note 7)	1,037,763	2,720
Other, net of share repurchases under a Normal Course Issuer Bid	267,134	3,629
Common shares outstanding, December 31, 2000	75,010,192	187,442
Issued on acquisitions (note 2)	765,155	5,406
Issued on exercise of options (note 7)	606,220	1,050
Other, net of share repurchases under a Normal Course Issuer Bid	(1,187,196)	(2,320)
Common shares outstanding, December 31, 2001	75,194,371	191,578
Other equity instruments:		
Canadian Originated Preferred Securities (note 6(c))		85,350
Paradigm earnout obligation to be settled in shares (note 6(d))		98,852
Total share capital, December 31, 2001		$ 375,780

6. Share capital (continued):

(c) Equity instruments - Canadian Originated Preferred Securities ("COPrS"):

Share capital includes equity instruments, net of costs, amounting to $85,349,870 issued in June 2001 through a private placement of COPrS. These securities have been issued in the form of unsecured senior subordinated instruments with an aggregate principal amount of US$57,000,000 at an annual interest rate of 10.5%. The COPrS have a final maturity of June 2009 with repayments in three equal installments beginning June 2007. The Company has the option to satisfy distribution and redemption obligations on these instruments either in cash, or from the proceeds on sale of the requisite number of common shares of the Company by a trustee to be appointed for that purpose. Under the terms of the issue of COPrS, the Company is required to maintain certain financial ratios.

(d) Equity instruments – Paradigm earnout obligation to be settled in shares:

As discussed in note 2(a), during fiscal 2001, the Company finalized the contingent consideration amounts payable to the vendors of Paradigm. Share capital at December 31, 2001 includes the obligations which were settled by issue of shares in January 2002. As well, further consideration payable in April 2002 is included in share capital as it is management's intention to settle these obligations in shares.

(e) In August 2001, the Toronto Stock Exchange ("TSE") accepted Mosaic's intention to renew its Normal Course Issuer Bid (the "Bid") through the facilities of the TSE. Under the terms of renewal, the number of common shares that can be purchased under the Bid will be 3.8 million shares during the period from August 8, 2001 to August 7, 2002. As at December 31, 2001, the Company had repurchased 1.0 million shares under the terms of the Bid.

(f) At the Annual and Special Meeting of the Shareholders of the Company held June 7, 2001, the Shareholders adopted a Shareholders Rights Plan (the "Rights Plan") to ensure that any takeover bid made for the shares of the Company shall be made to all Shareholders, shall treat all Shareholders fairly and equally, and shall provide the Board of Directors and the Shareholders with sufficient time to consider any such offer.

6. **Share capital (continued):**

(f) (continued)

The Rights Plan grants to Shareholders the right to acquire, in certain circumstances, additional common shares of the Company effectively at a discount to market value (i.e. each common share held by a Shareholder entitles such Shareholder to buy six common shares at the current market price of the common share held) for purposes of causing dilution to the acquirer. The Board of Directors may in certain circumstances waive the application of the Rights Plan or redeem all, but not less than, all of the outstanding "rights" at a nominal price.

7. **Stock-based compensation plans:**

(a) The Company has two fixed stock-based compensation plans.

(i) Under the Incentive Compensation Plan ("ICP") introduced in 1998, the Company is permitted to issue to employees, officers and directors up to 6,891,128 options to acquire shares of the Company. Generally under the ICP, options are granted with a strike price equal to no less than the fair market value of the common shares at the time of grant. Options vest annually over a four-year period and are exercisable over a five-year period from the date of grant.

During 2001, the Company granted 3,051,200 options to purchase common shares under the ICP (2000 – 225,000) at an exercise price of $4.00 to $7.49 per share (2000 - $11.70 to $19.00).

The Company has granted a total of 6,748,700 options, net of cancellations, to purchase common shares under the ICP at prices ranging from $2.75 to $19.00. During 2001, 545,100 options to purchase common shares were exercised (2000 – 467,800) at an average price of $2.80 (2000 – $4.23).

(ii) Under the 1998 Employee Share Ownership Program ("ESOP") the Company is permitted to issue to employees, officers and directors up to 1,337,238 options to acquire common shares. The ESOP provides that for each common share of the Company purchased by an employee at fair market value, he or she is entitled to receive one option to purchase an additional common share at the same price. Options granted under the ESOP vest annually over four years and are exercisable for five years from the date of grant.

During 2001, the Company granted options to purchase 219,304 common shares under the ESOP (2000 – 278,614) with exercise prices ranging from $3.50 to $9.86 per share (2000 - $11.05 to $21.19). The Company has granted a total of 828,051 options, net of cancellations, to purchase common shares under the ESOP at prices

(Tabular amounts in thousands of dollars, except for share and per share amounts)

7. Stock-based compensation plans (continued):

(a) (ii) (continued)

ranging from $2.25 to $21.19. During 2001, 41,120 options to purchase common shares were exercised (2000 – 56,236) at an average price of $3.82 (2000 - $5.71).

(b) The Company has reserved 1,091,273 common shares for employees' and directors' options exercisable at prices ranging from $1.90 to $3.25 over periods up to 2003. The reserved amount represents options to purchase common shares that were issued to employees and directors prior to the introduction of the ICP. During 2001, 20,000 options to purchase common shares were exercised (2000 – 513,727) at an average price of $2.55 (2000 – $2.23).

(c) The following table summarizes options granted, exercised, cancelled and outstanding as at December 31, 2001:

Expiry Year	Exercise Price Range	December 31, 2000 Outstanding Options	2001 Transactions Granted	2001 Transactions Exercised or Cancelled	December 31, 2001 Outstanding Options	Outstanding WAP*	Exercisable Options	Exercisable WAP*
2002	$1.90-2.70	482,273	-	-	482,273	$1.94	482,273	$1.94
2003	2.25-3.31	2,009,314	-	587,844	1,421,470	2.93	979,186	2.94
2004	3.00-4.12	177,886	-	69,711	108,175	3.62	46,152	3.64
2004	5.00-7.04	465,106	-	69,673	395,433	5.75	212,203	5.70
2004	7.53-10.30	1,749,504	-	323,718	1,425,786	10.26	831,763	10.26
2005	11.05-14.80	311,896	-	32,302	279,594	13.41	105,646	13.55
2005	16.42-21.19	165,142	-	51,473	113,669	17.32	44,720	17.34
2006	3.50-4.40	-	532,970	4,591	528,379	4.29	104,365	4.29
2006	4.71-5.83	-	2,270,467	23,300	2,247,167	4.72	1,118,753	4.71
2006	7.37-9.86	-	467,067	718	466,349	7.59	109,270	7.57
	$1.90-21.19	5,361,121	3,270,504	1,163,330	7,468,295	$5.96	4,034,331	$5.57
WAP*		$6.48	$5.06	$5.82	$5.96		$5.57	

* Weighted Average Exercise Price

At December 31, 2001, the weighted average remaining contract life of outstanding options was 35 months (2000 – 34 months).

(Tabular amounts in thousands of dollars, except for share and per share amounts)

7. **Stock-based compensation plans (continued):**

(d) The following table summarizes options granted, exercised, cancelled and outstanding, at December 31, 2000:

Expiry Year	Exercise Price Range	December 31, 1999 Outstanding Options	2000 Transactions Granted	Exercised or Cancelled	December 31, 2000 Outstanding Options	WAP*	Exercisable Options	WAP*
2001	$ 1.15-1.70	100,000	-	100,000	-	$ -	-	$ -
2002	1.90-2.70	755,000	-	272,727	482,273	1.94	482,273	1.94
2003	2.25-3.31	2,678,769	-	669,455	2,009,314	2.88	1,030,392	2.90
2004	3.00-4.12	211,152	-	33,266	177,886	3.66	58,968	3.67
2004	5.00-7.04	577,407	-	112,301	465,106	5.35	112,844	5.69
2004	7.53-10.30	1,815,326	-	65,822	1,749,504	10.25	665,782	10.25
2005	11.05-14.80	-	322,226	10,330	311,896	13.19	44,123	13.92
2005	16.42-21.19	-	181,388	16,246	165,142	17.12	30,032	17.02
	$ 1.15-21.19	6,137,654	503,614	1,280,147	5,361,121	$ 6.48	2,424,414	$ 5.25
WAP*		$5.19	$14.61	$3.50	$6.48		$5.25	

* Weighted Average Exercise Price

8. **Income taxes:**

Significant components of the income tax expense attributable to continuing operations for the years ended December 31 are as follows:

	2001	2000
Current income tax expense, exclusive of reduction for previously unutilized income tax losses and credits	$ 10,823	$ 10,384
Future income tax expense	960	976
Reduction in income tax expense arising from realization of previously unutilized income tax losses and credits	(3,681)	(821)
Total provision for income taxes	8,102	10,539
Add benefit of deductible goodwill included in goodwill charges	3,151	1,088
Income tax expense	$ 11,253	$ 11,627

(Tabular amounts in thousands of dollars, except for share and per share amounts)

8. **Income taxes (continued):**

Future income taxes arise from the temporary differences between assets and liabilities recognized for financial reporting purposes and those as per the tax laws in the jurisdictions in which the Company operates. The nature and tax effect of the assets, liabilities and unutilized tax losses that give rise to the future income tax assets and future income tax liabilities are as follows:

	2001	2000
Future Income Tax Assets:		
Tax benefit of unutilized tax losses	$ 17,532	$ 15,156
Share issue costs	6,012	-
Less valuation allowance	(5,323)	(8,136)
Net future income tax assets	$ 18,221	$ 7,020
Future Income Tax Liabilities:		
Goodwill	$ 15,296	$ 11,170
Capital assets	4,462	3,117
Future income tax liabilities	$ 19,758	$ 14,287

Income tax expense differs from the amount that would be computed by applying the Canadian federal and provincial statutory income tax rates of 41.75% (2000 - 44.0%) to income from continuing operations before income taxes and goodwill charges, with the differences as follows:

	2001	2000
Income taxes at statutory rates	$ 21,120	$ 21,681
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	188	221
Income tax rate differential between Canadian and foreign jurisdictions	(10,055)	(10,250)
Other	-	(25)
Income tax expense from continuing operations before goodwill charges	11,253	11,627
Benefit of deductible goodwill included in goodwill charges	(3,151)	(1,088)
Total provision for income taxes	$ 8,102	$ 10,539

(Tabular amounts in thousands of dollars, except for share and per share amounts)

8. Income taxes (continued):

The following table gives details of unutilized income tax losses and related income tax reductions as at December 31, 2001:

	Losses	Tax
Losses expiring - 2005	$ 2,790	$ 980
- 2006	8,547	3,002
- 2007	1,700	597
- 2008	26,595	9,340
- 2020	5,714	2,286
- Indefinite	4,426	1,327
Total	$ 49,772	$ 17,532

9. Supplementary disclosures:

(a) Earnings per share ("EPS"):

As disclosed in note 1, the Company retroactively adopted the new recommendations for determining earnings per common share issued by The Canadian Institute of Chartered Accountants. Under the new standard, the treasury stock method of calculating diluted earnings per share must be used. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the period. The impact on the fiscal 2000 reported EPS is to reduce the previously reported $0.42 in earnings per share from continuing operations to $0.41 per share to reflect the retroactive adoption of the treasury method in determining EPS.

Earnings per share calculations are based on net income from continuing operations after deducting distributions on the equity instruments, net of income taxes, amounting to $2,726,000 (2000 – nil) as the numerator in the calculation and the weighted average number of common shares outstanding during the year as the denominator.

For purposes of determining fully diluted earnings per share and fully diluted earnings per share before goodwill charges, only the rights to acquire common shares, including contingent share consideration on acquisitions that would be dilutive to earnings have been considered. Options to purchase 2,729,121 (2000 – 131,716) common shares under the Company's stock option plans were outstanding, but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the common shares and, therefore, their inclusion would be antidilutive.

(Tabular amounts in thousands of dollars, except for share and per share amounts)

9. Supplementary disclosures (continued):

(b) Pro forma earnings per share:

The following table shows the pro forma earnings per share assuming that the Paradigm earnout payments (note 2) were made on January 1, 2001.

	2001
Pro forma earnings per share from continuing operations before goodwill charges	
Basic	$ 0.32
Diluted	$ 0.32
Diluted pro forma earnings per share from continuing operations	
Basic	$ 0.20
Diluted	$ 0.20

The above determination of earnings per share is based on the following assumptions:

(i) the transaction was effective on January 1, 2001;

(ii) 33,020,000 common shares were issued on that date including the first payment of 20,540,000 shares and a further US$26 million settled in shares (12.48 million);

(iii) the consideration of US$26.5 million was paid in cash, and financed through borrowings at an interest rate of 6% with a tax shield of 25% on the interest expense; and

(iv) the US dollar to Canadian dollar exchange rate during the period was 1.59 for purposes of determining the Canadian dollar interest cost on an after-tax basis.

(Tabular amounts in thousands of dollars, except for share and per share amounts)

9. **Supplementary disclosures (continued):**

(c) Consolidated statements of cash flows:

(i) The consolidated statements of cash flows exclude the following non-cash financing and investing transactions:

	2001	2000
Paradigm earnout obligation to be settled in shares (note 6(d))	$ 98,852	$ -
Common shares issued on acquisitions	5,406	32,323
Exchange of Intelecom investment with minority interest in eForce	9,148	-
Assets acquired with capital leases	9,615	-

(ii) During 2001, the Company paid $4,735,000 in cash taxes (2000 - $3,816,000) and $15,731,000 in cash interest (2000 - $7,769,000), excluding distributions on COPrS.

(iii) Basic and fully diluted cash flow per share from continuing operations have been calculated using the cash provided from operations, excluding net change in non-cash operating working capital.

10. **Commitments:**

The Company is committed to payments under operating leases for equipment and buildings, with the following minimum annual lease payments:

2002	$ 12,205
2003	9,073
2004	7,689
2005	6,247
2006	4,187
Thereafter	11,108
	$ 50,509

11. Financial instruments:

(a) Risk management activities:

(i) The Company manages its credit risk in respect of trade accounts receivable by primarily dealing with large creditworthy customers and by collecting in advance of rendering services. Management is of the view that the accounts receivable are not subject to any significant concentration of credit risk. During fiscal 2001, one customer through multiple service contracts accounted for 27% of revenue (2000 – 10% of revenue), with no other customer accounting for greater than 7% of total revenue.

For 2002 the Company has discontinued its direct marketing customer acquisition contract with AT&T Wireless as profitability levels on this contract fell below target levels. This work represented US$90.6 million in revenue during 2001. The Company continues to maintain its consumer wireless acquisition services in the retail environment with AT&T Wireless through work done by another Mosaic subsidiary. Further, in conjunction with the discontinuance of Mosaic's direct marketing activities with AT&T Wireless, the parties are in the process of negotiating the financial arrangements of such discontinuance. In the event that a satisfactory resolution is not achieved either party can elect to settle such matter through binding arbitration. In February 2002, the Company notified AT&T Wireless of its intention to arbitrate should a mutually agreeable resolution not be reached. The Company does not anticipate any material negative impact on its financial position resulting from such negotiation or arbitration.

(ii) The Company is subject to risk in respect of fluctuating interest rates as a portion of its borrowings is subject to floating rates of interest. As described in note 5(b), the Company has fixed the interest rate on US$25,000,000 debt at 8.0%. A three-year interest rate swap for notional principal of $50,000,000 was purchased during 2001 to fix the rate of interest on a portion of debt with the year-end rate at 7.34%. Based on its estimated discounted cash flow using applicable current market rates, the Company's interest rate swaps have a fair value liability of $4,158,305 at December 31, 2001 (2000 - $17,500 fair value asset).

(iii) The Company operates in the United Kingdom and the United States. At December 31, 2001, the Company had US$69,000,000 in United States dollar denominated debt, which was determined to be a hedge of the net investment in US operations.

11. Financial instruments (continued):

(iv) The Company has entered into a series of short-term foreign currency forward contracts to manage its exposure to movements in the U.K. pound and the US dollar. The forward contracts are designated as hedges against the U.K. pound and US dollar receipts under certain long-term client contracts. At December 31, 2001, the nominal value of the U.K. pound forward contracts amounted to $13,224,000 (£5,700,000) (2000 – $29,900,000 (£13,348,000)) and had a fair value liability of $10,377 (2000 – fair value liability of $599,000) and the nominal value of the US dollar forward contracts amounted to $32,674,500 (US$20,550,000) (2000 – $30,855,000 (US$20,570,000)) and had a fair value liability of $621,570 (2000 – fair value asset of $159,000).

The Company does not currently engage in any other hedging or other foreign exchange management strategies and, accordingly, earnings will be impacted by movements in the values of the U.K. pound and US dollar in relation to the Canadian dollar.

(b) Fair values:

The carrying values of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, income taxes payable and accrued acquisition liabilities approximate their fair values due to the relatively short periods to maturity of the instruments. The aggregate fair value of long-term debt, calculated at the present value of contractual future payments of principal and interest, discounted at the current market rates of interest available to the Company for the same or similar instruments, approximates its current carrying value.

12. Segmented information:

During the third quarter of 2001 Mosaic changed its basis of presentation of operating segments, with corresponding changes in 2000 comparative figures, to better reflect the realignment of its businesses. These businesses exhibit similar economic characteristics driven by the nature of services provided, the method of delivery and similar long-term financial performance and accordingly have been aggregated.

(Tabular amounts in thousands of dollars, except for share and per share amounts)

12. Segmented information (continued):

The Company operates primarily in Canada, the United States and the United Kingdom and Ireland. Revenue is attributed to customers based on where services are provided.

	Revenue		Capital assets and goodwill	
	2001	2000	2001	2000
Canada	$ 120,816	$ 116,705	$ 67,817	$ 54,894
United States	464,460	177,492	452,606	286,240
UK and Ireland	176,378	199,465	132,398	135,453
	$ 761,654	$ 493,662	$ 652,821	$ 476,587

13. Discontinued operations:

Management determined in February 2001 that the development of the Continental European business was no longer a strategic priority, and as a result decided to divest the Company of its operations in those countries. The measurement date for the purpose of accounting was February 6, 2001. For 2000, the Continental European segment was disclosed as a discontinued operation and goodwill related to those acquisitions was written off at the end of the year. Included in the goodwill charges relating to discontinued operations is a goodwill write-down of $24.5 million representing the net book value of the goodwill relating to the Continental European segment. For 2001, the divestiture of the Continental European segment has been treated for accounting purposes as a discontinued operation with a charge of $8.3 million related to the loss on discontinuance of operations recognized in the first quarter of 2001. The Company substantially completed the divestment in the first half of 2001 through either the sale or closure of all the businesses involved. The book value of the remaining net assets of the Continental European operations is not material. Management does not anticipate any further charges related to this divestiture.

(Tabular amounts in thousands of dollars, except for share and per share amounts)

13. Discontinued operations (continued):

The following table shows details of the loss related to discontinued operations included in the consolidated statements of operations:

	2001	2000
Loss from discontinued operations before goodwill charges, net of income taxes	$ –	$ 3,078
Goodwill charges relating to discontinued operations	–	25,218
Loss on divestiture or discontinuance of operations, net of income taxes	8,324	–
Total loss from discontinued operations	$ 8,324	$ 28,296

14. Subsequent event – acquisition of Custom Offers LLC:

During January 2002, the Company acquired Evanston, Illinois based Custom Offers LLC. Custom Offers is an Internet marketing solutions company, focused on aggregating large volumes of high quality data. Data is monetized through performance driven marketing programs and through the sale of data to third parties. In 2001, the Company's start-up year, the Company generated over US$3,000,000 in revenue and achieved profitability.

The initial purchase price was US$6 million of which US$5.7 million was paid in Mosaic common shares with the balance in cash. Additional future contingent consideration is based on a multiple of up to 5 times the average 2002 and 2003 pre-tax earnings (less consideration previously paid) and will be settled primarily in Mosaic common shares. The maximum consideration paid under the earnout cannot exceed US$49.9 million, with any Mosaic common shares issued subject to a floor price of US$1.80.

15. Comparative consolidated financial statements:

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2001 consolidated financial statements.

QUARTERLY HIGHLIGHTS

(In millions of dollars, except per share amounts, unaudited)

	2001				2000				1999				1998				1997			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of operations:																				
Revenues	$167.5	209.4	213.0	171.8	145.8	146.5	110.3	91.1	102.9	112.0	83.1	80.0	83.0	88.1	44.7	36.8	37.9	39.6	26.9	18.3
Gross profit	$ 46.9	60.2	58.3	50.8	51.6	52.0	39.4	31.9	32.2	38.4	29.6	25.4	28.0	27.0	16.0	12.6	9.3	12.3	9.3	6.7
EBITDA	$ 17.9	25.9	23.2	17.6	20.8	21.4	15.2	9.8	9.2	12.8	9.2	6.0	7.9	9.2	4.8	3.1	4.1	3.8	2.7	1.5
Earnings from continuing operations before goodwill charges	$ 6.6	13.9	11.7	7.1	10.5	13.3	8.9	4.9	5.8	7.3	4.4	2.7	4.8	4.4	2.6	1.2	2.2	1.9	1.3	0.6
Earnings from continuing operations	$ 4.0	11.3	9.2	4.5	8.3	11.7	7.4	3.5	4.6	6.1	3.2	1.6	3.4	3.5	1.9	0.7	1.8	1.5	1.0	0.5
Net earnings	$ 4.0	11.3	9.2	(3.8)	(18.0)	11.1	6.3	3.2	6.4	6.3	3.3	1.8	4.0	3.5	1.9	0.7	1.8	1.5	1.0	0.5
Per share amounts:																				
Net earnings:																				
Basic	$ 0.04	0.13	0.12	(0.05)	(0.25)	0.15	0.09	0.05	0.09	0.09	0.05	0.03	0.07	0.06	0.04	0.02	0.05	0.04	0.03	0.02
Diluted	$ 0.04	0.13	0.12	(0.05)	(0.25)	0.15	0.08	0.05	0.09	0.08	0.05	0.03	0.06	0.06	0.03	0.02	0.04	0.04	0.02	0.02
Earnings from continuing operations:																				
Basic	$ 0.04	0.13	0.12	0.06	0.11	0.16	0.10	0.05	0.06	0.09	0.05	0.03	0.06	0.06	0.04	0.02	0.05	0.04	0.03	0.02
Diluted	$ 0.04	0.13	0.12	0.06	0.11	0.15	0.10	0.05	0.06	0.08	0.05	0.03	0.06	0.06	0.03	0.02	0.04	0.04	0.02	0.02
Balance sheet:																				
Cash position, net	$ (1.3)	1.0	1.0	0.7	12.3	12.8	16.1	5.6	5.7	(0.2)	1.2	12.4	3.1	11.7	7.2	(4.2)	1.0	1.9	3.8	2.6
Total assets	$820.8	694.9	668.6	667.0	648.1	422.8	392.9	358.7	346.5	314.9	304.2	272.0	272.0	259.6	207.0	119.4	109.9	82.2	84.4	50.5
Long-term debt, including current portion	$173.2	169.3	154.2	225.5	227.6	113.3	98.8	83.2	78.5	42.3	99.1	74.2	67.5	72.9	53.1	19.4	19.8	13.8	14.4	3.8
Shareholders' equity	$419.0	319.8	298.4	215.0	206.2	201.5	189.5	178.2	172.9	169.0	118.1	118.0	118.6	108.5	92.8	50.2	45.7	38.8	37.3	26.3

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Share exchange

Toronto Stock Exchange

Trading symbol

MGX

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Toronto, Canada

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Canadian Imperial Bank of
Commerce
The Bank of Nova Scotia
Bank One, NA, Canada Branch
Bank of Montreal
The Toronto-Dominion Bank
HSBC Bank Canada
Royal Bank of Canada

Legal counsel

McCarthy Tétrault, Toronto, Ontario,
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Boston, Massachusetts
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Domenic Ieraci
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Ben Kaak
Executive Vice President and
Chief Financial Officer

Brian Meagher
President Sales Solutions
North America

Colin Moore
Chief Operating Officer

Jerry Stone
President Mosaic Solutions UK

Annual and special meeting of shareholders

The Design Exchange
234 Bay Street
Toronto-Dominion Centre
Toronto, Ontario
At 11:00 a.m. on May 14th, 2002

MOSAIC

REAL SOLUTIONS. REAL RESULTS.